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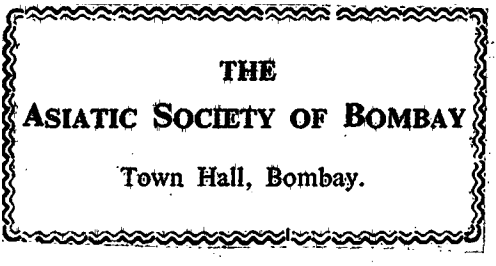

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1931

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INDIAN CENTRAL BANKING ENQUIRY COMMITTEE.

MINUTES OF EVIDENCE

TAKEN BEFORE THE

Indian Central Banking Enquiry Committee

AT POONA.

FIRST DAY.

Saturday, the 16th August 1930.

PRESENT.

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E., (*Vice-Chairman*).

Mr. D. P. KHAITAN.
Sir HUGH COCKE, KT.
Mr. F. V. RUSHFORTH.
Dr. L. K. HYDER.
Mr. MANU SUBEDAR.
Mr. V. RAMADAS PANTULU.
Mr. W. LAMOND.
Lala HARKISHAN LAL, Bar.-at-Law.
Mr. R. W. BUCKLEY.
Mr. JADU NATH ROY.
Mr. G. K. DEVADHAR, C.I.E.
Chowdhri MUKHTAR SINGH.
Mr. JAMAL MOHAMMAD.

Mr. V. K. ARAVAMUDHA AYANGAR, C.I.E., *Secretary*.

Mr. R. P. MASANI, *Joint Secretary*.

Mr. A. R. Ingram, Mr. J. R. Abercrombie, and Sir Leslie Hudson, representatives of the **Bombay Chamber of Commerce**, were examined.

1. *Chairman*: You say that in the case of certain cotton mill companies the block is financed by deposits or loans. Would you please indicate the nature of the sources of these deposits and the rate of interest paid on them?—The deposits are usually deposits from people who have spare money and who are interested in the cotton mill industry and who expect possibilities of a good return for their money. On those deposits the rates of interest vary from 4½ to 6½ per cent. Loans would be in the form of cash credits on liquid assets from the banks, a certain proportion of debenture issues, and loans from managing agents.

2. You say that capital is not easily forthcoming for long term investments in industries and suggest that one method of mobilising the capital is the formation of investment trust companies and issue houses. Will you kindly state what steps, you would suggest, should be taken for forming such institutions and what action Government might usefully take in this connection?—I take it, Sir, that investment trust companies are very largely the aggregation of private wealth and investment trust companies are usually started on private capital. I am not aware what Government assistance is given to such investment trust companies if they exist, but I believe that in England where investment trust companies do exist to quite a considerable extent, no Government assistance is given. They carry on from their own resources.

3. You have not dealt with issue houses. Have you anything to say about them?—I am afraid that I have no personal knowledge of issue houses. There is nothing to correspond to them on this side of India that I am aware of.

4. It is perfectly true that there are no issue houses in India, but you recommend the formation of issue houses for mobilising capital and I wanted to know whether you have any suggestions to make for the formation, *inter alia*, of an issue house and whether you think that Government might take any useful action in this connection?—I think the answer to that, I take it, is that an issue house comes under the same category as an investment trust company. I have had no experience of investment trust companies on the Continent and I do not know whether they get Government assistance. It is difficult to see exactly how Government is going to support investment trust companies which are in themselves private capital companies.

5. Do you feel that without any Government assistance these institutions will grow up in India?—That may be looked upon as a possibility of the growth of banking and investment habit.

6. Besides the formation of investment trust companies and issue houses, have you any other suggestions to put forward with a view to mobilising capital for industrial development?—The present managing agency system is, to a certain extent, of a mobilising character. I take it that the managing agents in the first place when a concern is started (I am talking particularly about cotton mills) may themselves put their own money into it and their credit attracts capital from their friends and others who are aware of the standing of the managing agents. I have also heard it suggested that in regard to mobilising capital under certain conditions the services of banks themselves might be brought into use. I believe that is the case in Germany where the banks support industrial issues and a bank or group of banks is usually to be found on the prospectus of such industrial issues, who to a certain extent guarantee them.

7. It has been suggested that investment trusts and issue houses are altogether novel ideas in India and that it is not possible to get public subscriptions for such institutions from the Indian public. Will you let the Committee have your views on this point?—I think I have already said, Sir, that it is a fact that these investment trusts and issue houses are novel ideas. But I do not feel that even in Europe and America they were in existence a very great number of years ago and it seems to me to be a matter for the public to become educated in the methods of obtaining capital for industry before they are started in this country.

8. Could you please tell me whether in Germany and America they had industrial banks before they started investment trusts?—I am not aware of it.

9. It has also been pointed out that the amount of experience, knowledge, financial skill and acquaintance with international monetary conditions required on the part of issue houses is very great and that it is hardly likely that you can have any issue house in India for a good many years to come. What is your opinion on this view of the situation?—There is a great deal in what you say. In England there are financial trusts and their great point is that they do not invest much money in any one line of commodity or in any particular country and that is a great safeguard. We are quite prepared to admit that if you have an investment trust company, there always will be the danger that all their investments will be in this country and will be liable to, say, bad monsoons and similar troubles. But we feel that these investment trust companies will be the outcome of surplus capital in the country which wants to find an investment and they will be prepared to hand over their money to people of recognised standing who may be able to secure them better investment than they do themselves; and we do feel that there is a future in India for these investment trusts.

10. Why do you from that point of view give preference to an investment trust or an issue house over an industrial bank modelled on the lines of the banks, say in Germany, the United States of America or Japan?—Because as Englishmen brought up from the English point of view we feel that industry must supply its own capital. It is no function of a bank to produce the capital to start an industrial concern.

11. You refer to what I may call the conservatism of the Englishman. Would you like to modify that statement in view of recent developments in England?—In what respect? I do not know of any industrial bank in England.

They have formed there recently the investment and security trusts corporations. In fact the Bank of England is giving them some sort of support?—I have no knowledge of that, Sir. But if it is an investment corporation, the banks, if they are satisfied with the means and standing of the investment corporation, would be prepared to advance money. We feel that industries should start with capital of their own. When they develop, they will have assets, liquid and otherwise, which they would be able to discount with the banks, but primarily an industry must be started with private capital and private enterprise. I admit that is the English point of view.

12. It has been suggested that as you cannot have investment trusts or issue houses, the only alternative is to have an industrial bank. You have practically answered that you do not support the idea of an industrial bank in India?—For reasons stated.

13. What are the reasons to which you are referring? Are they given in the memorandum?—Please see my reply to Question 4, Section I.

14. But there are no reasons given there practically. As I understood you now, it was because you hold very firmly to the conservative views of the Englishman on the subject that you do not advocate the establishment of industrial banks in India in spite of the practice in Germany, the United States of America and Japan among other countries. Am I correct in this?—To a certain extent. I would rather put it in another

way. The reason we oppose industrial banks is that we feel it is no concern of a bank to start an industry. We do not feel that an industry ought to be started unless people are prepared to come forward and put up the money. It is no duty of a bank to gamble in industries.

15. Are the two things the same, for a bank to start an industry and for a bank to find money for the development of an industry? For example, you began by talking of the Bombay Cotton Mills. They have been started and they may want additional capital for development. It is not a question of industrial banks starting an industry. It may be a question of the industrial bank providing additional funds for the development of an existing industry. I quite agree it may be the other thing also, *viz.*, an industrial bank providing money for the starting of an industry, but there is the other aspect too.—Do not the ordinary banks in India provide sufficient funds?

16. I think that is what you yourselves said and that is why you yourselves suggested the establishment of investment trust companies and issue houses in your answer to Question I (*a*)?—I do not see any reason why you should call in an industrial bank if the facilities for their development are given by existing banks. The fact that capital has been privately subscribed gives sufficient guarantee for an advance for further development, whether it is done by an industrial bank or any other bank.

17. In your answer to Q. 1 you say "the supply of capital for industrial development in India is somewhat limited and until capital is more easily forthcoming, etc.". If that statement had not been made and if you had stated that in your opinion the supply of capital is adequate and the sources from which that capital is to come are also adequate, it would not have been necessary for me to put these questions. Your Chamber admit that the supply of capital is somewhat limited and they themselves suggest certain methods by which the supply might be broadened. Therefore I ask you if there are difficulties in the way of establishment of investment trusts or issue houses in India, what objection would there be on your part to the establishment of industrial banks? Now the answer to that was the natural conservatism of the Englishman on these matters. That, as it stood, was a sufficient answer. But when I repeated whether that was your only answer, I was told that there were other reasons. All the reasons I can find are those given in answer to Question 4 of Section I. To that I shall come pretty soon. For the moment I want to know whether, apart from the natural conservatism of the Englishman in this matter, there was any other reason which made the Bombay Chamber object to the idea of the establishment of industrial banks in India.—The reference to the limited capital of course was private capital. There has been sufficient capital for the development of industries, capital in the hands of companies, and banks.

18. Not only that. We come later on to what you say: "it is perfectly legitimate to find a portion of this finance required for block by means of a debenture loan but this form of finance is not as popular in India as elsewhere.....". Therefore you also refer to private capital from shareholders. Is not the view of the Bombay Chamber that the sources of supply of private capital are limited or the supply itself is limited?—The debenture capital is not necessarily private capital.

19. You say that debenture loan is not as popular in India as elsewhere, due to the small prospect of appreciation in value which is the favourite

consideration for a large proportion of the Indian public. What will be your answer to the critic who says that the shyness of Indian capital is due to conservatism and want of confidence in industrial enterprises rather than to a lack of prospect of appreciation in value of stocks and bonds?—I think it is a fact that debenture loans, in so far as Bombay is concerned, have not been, shall we say, fashionable. A mill which is encumbered with a debenture loan, has not the same full credit which the banks as a concern without a debenture loan attached to it has. In regard to the shyness of Indian capital, I think that there is certainly more than one class of investor in India, and the conservative investor, very largely in the *mofussil*, who has not been in contact with the industrial centres, who has not lived in Bombay and who does not know the existence of these industrial concerns will invest his money in savings banks, cash certificates and so forth, knowing that he has the guarantee of the Government behind him and therefore his money is perfectly secure.

20. But here you do not refer to the question of security; you refer to the prospect of appreciation.—I did not refer to the other class of investors who have been in contact with industrial concerns and who have seen the success of those industries grow from small things to very big ones, who put their money in the concern with the idea that they were going to get large appreciation of capital.

21. Therefore your answer comes to this: that the objection of the investing public to invest in debentures really arises from the reason which I suggested, that is, the shyness of Indian capital. The investor does not know whether his investment will produce a proper return or not, *i.e.*, it is a safe investment. It is not so much a question of appreciation of value.—The fact remains that debenture issues have not been a popular form of investment in Bombay.

22. I am quite prepared to admit that. I was simply trying to explore the reason for the unpopularity. Your Chamber gave as their reason for the unpopularity the small prospect of appreciation in value and I was trying to find out whether that was the only reason. As it is, the answer which you previously gave practically brings out my own point that it is not wholly that, it may or may not be partially that; but certainly one important reason is the shyness of Indian capital which arises from doubts as to the safety of that particular form of investment.—The point is that debenture has not got the possibility of appreciation, because of its fixed rate of interest.

23. If the real reason why debentures of this class have not yet attracted much attention from the investing Indian public is that they are doubtful about the security of the investment and if an industrial bank properly conducted and properly organised might have the effect of removing that mistrust on the part of the investing public in this particular class of investment, would not something be gained by the establishment of such an industrial bank?—Certainly it will be.

24. How will you also explain the large amount invested by the public in India in Government loans, savings banks and cash certificates? That really bears on your point about small prospect of appreciation in value. The prospect of appreciation in value of these Government securities are very doubtful, even so they attract large investors. The answer you brought out in connection with the previous question is really the safety of the investment which makes the public invest in these particular forms

of investment. Therefore I do not think I need pursue the question further?—There is one point that Government securities are much more readily convertible. If you want to sell, you get the money immediately.

25. But in regard to shares quoted in the market, can you not get them sold as readily as Government securities?—Certainly not.

26. *Sir Purshotamdas Thakurdas*: Do you think Government securities are more popular and therefore there is constant demand for them? It is not the same with shares.—Government securities must be the more popular form of investment.

27. Perhaps you will agree that countries where investment trusts have worked till now in the manner quoted by you are countries which control their own fiscal policy. The countries adjust their fiscal requirements according to the requirements of their industries.—That is so.

28. In India where that has not been the case, the shrewd investor who is in the know of the effects of the handicap of India's fiscal policy would naturally feel shy. I put it to you if you are asked to invest in debentures in a new industry, bearing in mind that there is competition from outside in dumping, you would think twice before you invest.—That must follow.

29. Therefore the root cause is, if I may put it that way, not what you say in answer 4 of Section I, namely "Attempts in this direction such as the Tata Industrial Bank in the past have shown that the economic development of the country is not yet ripe for this type of specialized Bank", but it may be more correct if we change the words "that the economic development of the country is not yet ripe for" into "that the fiscal policy of the country does not admit of".—I do not know if we can accept that.

30. I wish to understand your point of view. If you change the words as I have suggested above, there will not be much difference of opinion between what the Indian commercial community have been urging and what you to-day have pointed out.—I think it is rather a difficult question to answer as it raises matters of fiscal policy which we have not considered in connection with this Banking Enquiry.

31. Let me put it to you in another way. During the period of the boom after the war when industrial concerns gave handsome dividends ranging from 20 per cent to whatever you would like to put it at, I think, that at least Sir Leslie would be able to bear me out that, it was easier to float shares than debentures. Therefore if an industry is known to be in a position to earn a reasonable dividend and if the fiscal policy of the Government permits of an industry being protected when there is keen and remunerative competition from outside, the investing public would not be so shy, for their shyness is mainly due to the fiscal policy of the Government of the country which is really at the bottom of industries not flourishing.

Let me give you another instance. In other countries insurance companies invest their surplus funds in debentures of first class industrial concerns. In India no insurance company, which works on reasonably cautions lines, has yet taken to this. You cannot put this to the oft mentioned shyness of the Indian capital. I think you will agree that it is due to their not feeling safe in investing in debentures of companies the fate of which is dependent upon the fiscal policy of the Government of the

country.—I should like to prove less intransigent in the matter of answering these questions. But I know nothing about these insurance companies.

32. Are all the investments of insurance companies in England, first class insurance companies, restricted to Government stocks?—No.

33. Then why this difference between England and India?—They are prohibited from investing in other than trustee securities. In other countries debenture stocks are rated as trustee securities.

34. What I am trying to bring out is that if the intelligentsia of the country could trust the fate of industries, this shyness or conservatism which you now see would not be perceptible.—Probably not.

35. *Chairman*: Is it correct to say that in any other country the people who would like to invest in the debentures of an industrial company have not thought of the profits to be earned by those debentures? Is there any automatic process by which the Government take action to secure an adequate return of interest on those debentures? Probably if you have not thought about it, you might not like to answer that question either.—I have no knowledge.

36. You say that the system of financing by managing agents is dangerous of abuse. Will you kindly explain a little more fully what you mean?—The reason for that statement was—and 'abuse' possibly is not the correct word to use—that managing agents themselves were investing their own money in these companies. Whilst every thing goes on smoothly, things are all right. If more money is required by the concern, the managing agents may very often continue supplying the money themselves. That may go on to a considerable degree. Later on, conditions alter and the industry or the particular concern may come up against bad times and the managing agents may find themselves compelled to find more money to support the industry. I think, Sir, that that was the main reason at the back of this expression—'dangerous of abuse'—which should not have been the term used.

37. You say that in Ahmedabad, where conditions differ, the practice of financing floating capital by means of deposits from the public has proved to a large degree both economical and satisfactory. Will you kindly explain to the Committee the difference in conditions between Bombay and Ahmedabad?—Here, Sir, I must go by information received and that is that in Bombay the method of finance has, at any rate of late years, been largely by cash credits on liquid assets, whereas the success of the Ahmedabad Mill industry has enabled them to have a call on the public such as has not been possible in Bombay.

38. Therefore it is not a question of abuse. It is purely a question of the return on the capital invested by the public. From what you have told me, I gathered the impression that in Bombay the confidence of the public who used to deposit money with mills has been shaken by the diminishing returns of the mills; while in Ahmedabad where the returns have not diminished to the same extent as is the case in Bombay, these deposits have continued.—Well, Sir, the conditions differ by the fact that deposits from the public are available and obtainable in Ahmedabad whereas, owing to the conditions in Bombay, I am given to understand, they are not so easily available now.

39. That practically brings you to my point, namely, that it is not so much a question of different conditions as a question of difference in the returns.

40. *Mr. Devadhar*: Does the same reason apply to Sholapur?—So far as I am aware, conditions are similar in Sholapur. My information is purely from hearsay and therefore it should not be taken as more than mere hearsay.

41. *Chairman*: You say that rates of interest vary in relation to the seasonal rise and fall of the Imperial Bank rate. In a later answer you say that in present conditions it is not unusual to have anomalous situations of the Imperial Bank rate being 6 per cent with money at call unlendable at 2 per cent. Do you think that this is a satisfactory situation from the point of view of industrial enterprises?—It is not a satisfactory situation; but it is one that is common to all countries, probably to a lesser extent.

42. You say that banks give advances, among other things on the security of liquid assets and goods. It has been suggested that it is the practice of banks to have the goods in their own godown and that the practice is not popular on account of the publicity, which prejudicially affects the prestige of industrial undertakings. Will you tell the Committee your experience in the matter?—It is common practice in all countries; and we do not feel that it in any way prejudicially affects the prestige. Most people have to borrow capital for their seasonal requirements.

43. You say that the failure of the Tata Bank has shown that the economic development of the country is not yet ripe for this type of specialised banking. Will you kindly tell the Committee what you consider to be the causes of the failure of the bank?—I should rather not answer this question, as this is not a matter which we had sufficient opportunity of studying. Therefore what we might say here might cause difficulties. My inference naturally is that the country is not ripe for this kind of banking.

44. It has been suggested that the Tata Industrial Bank lacked many of the features of an industrial bank, notably, the issue of long term debentures and a staff competent to advise the bank on industrial propositions as such. Would you kindly tell the Committee whether there is anything in this suggestion? Probably your answer will be that you have had no opportunity of studying the question.—Yes.

45. Do you think that any serious effort has so far been made to have a well-conceived, well-managed and well functioning industrial bank?—No, I do not think any serious effort has been made.

46. You say that your Committee have not observed any trade in which credit facilities are not adequately provided for by the exchange banks. Are the Chamber aware of the strong opinion to the contrary held by the Indian mercantile community?—We have only heard it stated, but we know of no trade which does not enjoy adequate credit facilities.

47. You say that it is questionable whether licensed warehouses are at present a practical proposition owing to the great diversity of the crops grown in the provinces and the large capital outlay involved. As regards the capital outlay, it has been suggested that Government should render some assistance by suitable grants of land or money, or loans at low rates of interest. Will you kindly let the Committee know how you view this suggestion?—

I think, Sir, that in answering this question we were possibly at the time a little overwhelmed with the magnitude of the suggestion, and in

saying that it was not a practical proposition, the intention is not to infer that such warehouses would not be a benefit to commerce, especially internal commerce, but rather that the question of raising money for the erection of a vast number of warehouses would be, at any rate in the beginning, a difficult matter. I shall go on to say that we do realise that if they could be furnished, such warehouses would be of great assistance to trade and in the moving of the crops of the country.

48. To avoid the difficulty of the diversity in the crops grown in India it has been suggested that a scheme for training, examining and certifying or licensing measurers or graders should be formulated by Government and brought into operation as soon as warehouses are established. Will you kindly tell the Committee how far you think such a measure will remove the difficulty pointed out by you?—The difficulty is removeable by other means than by providing measurers or graders. The difficulty is one more of finance than of the great diversity of crops. The provision of licensed measurers or graders would, without doubt, be of great assistance. I think I am right in saying that the system of grading in cotton has always been of considerable assistance to that industry and that the extension of grading to other agricultural products of the country would doubtless be of great use to the producer.

49. To that extent you qualify your first statement that finance only is required.—We feel that the finance which would be required to finance these warehouses would be of great magnitude and that was why we suggested that it would not be a practical proposition.

50. Would it not be necessary to provide for the grading of the produce? —I have said that grading would be of assistance to the producer. He should get a better price of the crop if it were properly graded.

51. Would it not lead to practical difficulties if all the crops were stored together?—That would depend upon the size of the warehouse.

52. Are there any difficulties in establishing warehouses for the storage of manufactured goods?—(In the ports or elsewhere?—In the ports.) I do not see any difficulty.

53. In regard to the question: Have you any suggestions to make with a view to meeting the difficulties mentioned by you which stand in the way of the establishment of warehouses? Your answer is that the difficulty is one of finance?—Yes.

54. It has been suggested by one of the Provincial Banking Enquiry Committees that Railway administrations may be asked to have warehouses at selected railway stations where proper control may be exercised. Have you any views on the suggestion?—Except that Railway companies with the experience which they have of warehousing conditions ought to be able to provide conveniences in that way.

55. Therefore you support the idea?—Generally speaking, yes.

56. You suggest that any form of control or inspection of banks by Government may detract from the responsibility of the management. What will be your answer to the critic who says that such inspection and control by Government now obtains in various countries of the world like the United States of America, Canada and Japan, and that such control and inspection are necessary in order to create confidence in the minds of the public in a country like India where banking is very backward?—The

onus of fraud should not devolve upon the private auditor. The responsibility of the managers and directors cannot be imposed upon the auditors. It must be joint responsibility.

57. *Sir Purshotamdas Thakurdas*: Your point is that Government audit should not reduce the responsibility of the management of the bank. You have no objection to Government audit?—No.

58. *Chairman*: It has been suggested by some witnesses that one of the principal causes of bank failures in India in the past was mis-management and fraud by those connected with the management and that these failures might have been prevented in time if there had been some kind of supervision and control by Government. Will you kindly tell the Committee what you think of this suggestion? Of course you are in favour of that sort of control?—Yes, so long as it is a recognised form of audit.

59. Are you against any form of Government control which does not detract from the responsibility of the bank management?—No, we are not against joint responsibility.

60. You suggest the registration of all institutions calling themselves 'banks' and the prescription of certain regulations regarding the minimum amount of paid up capital, etc. You do not think that bankers need be similarly regulated. Will this not result in many of the smaller banks which you intend to regulate avoiding the name of 'bank' and styling themselves as 'bankers'?—It would be to their detriment if they do so. I think the private banks would not command the same respect as registered banks would.

61. In what respects would they suffer?—I think they would suffer in status to some extent. Registration would involve compliance with certain restrictions and if some banks avoid registration, it means that they are not in a position, for example, to give the minimum amount of capital necessary for registration.

62. Would they improve their status by registration?—Yes, that is what I mean.

63. I am sorry I do not quite follow you. These unregistered banks are already doing their business. Will the mere change of their name from "bank" to "banker" in any way reduce the business actually done by them?—Not necessarily, but it may reduce the confidence of the investing public.

64. If they described themselves as "bankers" instead of "banks"?—Yes.

65. In the case of Messrs. Cox & Co., they call themselves as Bankers and Shipping Agents. Because they style themselves as bankers, do they lack public confidence?—That is not what I mean. When these banks will be subjected to a control by a new agency or legislation that is likely to come in India very shortly, there is bound to be some difference between a registered and an un-registered bank.

66. You say that foreign firms doing banking business in India should keep a percentage of their current liabilities in cash or in Indian securities. Am I right in assuming that you refer to current liabilities to the public in India?—Yes, that is so.

67. If such a reserve is required under any scheme of a Reserve Bank to be placed with that Bank, would you require in addition any reserve with the firms themselves?—Not necessarily.

68. You refer to special conditions regarding audit being drawn up to apply to *recognised* banks entitled to certain privileges from the Reserve Bank. Will you kindly explain a little more fully what conditions regarding audit you have in mind?—We expected that these conditions would be laid down by the Reserve Bank, if it is formed.

69. But, have you any suggestions to make in regard to any such conditions?—No, I cannot elaborate it any further.

70. You say that you are not in favour of any legislation defining the sphere of operations of the various classes of banks in India as that would reduce the competition among banks and stand in the way of providing the country with sound banking institutions. It has been suggested by one witness that there is at present an unhealthy competition between the foreign exchange banks and the Indian joint stock banks and that unless there are restrictions imposed on the borrowing powers and business of foreign banks, the future of Indian joint stock banking does not seem very bright. Have you anything to say in regard to this line of argument?—We know of no competition. The Indian joint stock banks offer higher rates of interest on the deposits received by them than the exchange banks. By this means, the joint stock banks should be able to attract more deposits.

71. But does not the very fact that the Indian joint stock banks have to offer higher rates of interest than the exchange banks work prejudicially against their own interests?—If the depositors are willing to accept a lower rate of interest, then it only redounds to the credit and integrity of the bank. The unhealthy competition is apparently on the part of the Indian joint stock banks themselves. So far as I could see, the foreign banks are not responsible for the unhealthy competition. They are only offering a lower rate of interest on their deposits.

72. Competition as between a bank with very strong resources and a bank with limited resources will prejudicially affect the interests of the latter, will it not?—Probably, it is unhealthy for the bank which pays a higher rate of interest. We are not really aware that there is unequal competition. Of course, one thing might be said, that the younger banks will be always at a disadvantage against older banks.

73. You say that any attempt to license foreign banks will be in the nature of a restriction placed in the way of expansion of banking in India. It is suggested by some witnesses that some kind of control is exercised in other countries like the United States of America, Germany, Italy, etc., by a system of licenses issued by Government authority. Will you kindly let the Committee have your views on this suggestion?—Any attempt to license the foreign banks would be detrimental to the existing foreign banks in India and it does not seem to be an essential thing to license them because they assist India's external trade and will continue to do so.

74. But you know some control is exercised in some countries like Germany, United States of America, etc.?—But the license charges in those countries are not prohibitive. I do not think that any foreign bank in India will object to pay any license fees. I do not know if the suggestion is to restrict all the existing foreign exchange banks, or only those that might come into being in future, and if it is only the latter I have no objection to that being done, as India is already over-banked.

75. What do you mean by "over-banked" at present?—I mean so far as the foreign exchange business is concerned, we have got any number of banks at the ports now. We admit that banking development can be carried out in the mofussil with advantage.

76. It is understood that in Great Britain, a firm registered in a foreign country desiring to establish business in Great Britain has to comply with requirements closely following the obligations imposed upon Companies registered in England. Are you in favour of similar arrangements being made in India?—The control in England or Great Britain is more or less governed by the Board of Trade which has a lot to say with regard to employment of the Nationals in the foreign companies that are established there. We think it essential that any banking business establishing itself in this country should conform to the laws of the country.

77. With reference to your statement that legislation should provide for a minimum cash capital in proportion to authorized capital before a bank commences business, will you kindly say how you would fix that minimum?—It is rather difficult for us to lay down any definite percentage. Generally speaking, 50 per cent. might be suitable.

78. You have given the principal causes which, in your experience, or observation have led to bank failures in India. Do you think that any of the causes mentioned by you is peculiar to India?—No. I think they are common to all countries.

79. Arising out of your answer, may I ask whether you think that legislation regarding some of the matters such as maintenance of reserves, payments of dividends and investment of bank funds, would be useful to prevent bank failures?—I do not think too much interference by Government is warranted in such matters.

80. You say that the liquidation of banks can hardly be a matter for legislation. I understand that in Canada provision is made in the Bank Act for the Canadian Bankers' Association taking charge of a bank which fails to meet any of its liabilities as they accrue and that the bank is wound up only after the curator appointed by the Bankers' Association finds it impossible within 90 days to restore the solvency of the bank and that during these three months the stock-holders are given a chance by a provision in the Act to raise funds and restore the bank to solvency. Do you think that a similar provision will be useful in India?—We doubt the possibility of improving a bank whose credit is impaired. Credit once impaired is very difficult to restore. Even under such a provision under the Canadian system, it would take a very considerable time before the credit once lost could be re-established and we still think re-establishment would be doubtful.

81. Do you think that there may be advantage in adopting this Canadian system in India?—Our idea is that when the Reserve Bank comes into existence, it might assume these duties.

82. I am not referring to the agency which will deal with such matters. I only want to know whether the Bombay Chamber of Commerce would be able to say whether such arrangements as are provided for in Canada would be of any benefit to India?—At the moment I do not think that any Bankers' Association could be formed in India which could be compelled to deal with any bank which is in danger of failing.

83. Am I correct in understanding your answer to be as follows:—That you are in favour of the procedure itself but you do not think it will be possible at present to start in India a machinery like the Canadian Bankers' Association and that you think that the machinery for working the procedure should be the work of the Reserve Bank when it is established in India.—Yes, that is so.

84. You say that the Exchange banks draw their staff from their home offices. In a later answer, to question 7 under "General Banking Organisation" you suggest that rates on interest on advances by banks can be brought down by increasing gradually the proportion of trained Indians of sufficient experience in the banks. From this point of view would you advocate the Exchange banks following a policy similar to that of the Imperial Bank and encouraging the training of Indians in their institutions?—We did not quite say so in our answer. We have referred to the cost of management and not to rates of interest.

85. Will not cost of management react on rates of interest?—Yes.

86. I am quite willing to correct my question to that extent?—Of course it is a minor matter. As a matter of fact the Exchange Banks are doing so now. The most successful Indian joint stock banker of today received his training from an exchange bank. An Indian boy is undergoing training in a London Exchange Bank now.

87. You say that banking development means the substitution of westernised system of joint stock banking for the existing net work of indigenous shroffs and sahukars. Is it the view of the Chamber that these indigenous bankers should be completely replaced?—We have not made any suggestion that the indigenous banker should be completely replaced. He serves as a useful link between the cultivator and the market.

88. You have referred in your answer to the present position under which anomalous situations arise in which Imperial Bank rate stands much higher than money at call. What is your remedy for this state of affairs? Will the establishment of the Reserve Bank in any way help to improve this position?—Presumably it would. Some means of utilizing surplus funds such as short term Treasury Bills by the Government would be required.

89. It has been suggested that a link between the indigenous bankers and the other joint stock banks in the country may be established if the indigenous bankers were encouraged to accept bills which may be paid by the other banks as short dated investments. Have you devoted any thought to this subject and can you kindly give the Committee the benefit of your views?—Our answer to question 2 under Section V (General Banking Organisation and Money Market) covers this. We consider there is considerable facility at present for rediscounting *hundis*.

90. You say that the bank rate should be entirely dictated by the exigencies of the money situation in India and should in no way be subject to control by the Government of India. It has been suggested that in present conditions when Government is entrusted with the working of the currency system, it is not advisable for Government to keep aloof, seeing that changes in the bank rate affect the currency reserves of the country. Have you anything to say about this line of argument?—Our answer to this question is that the regulations of the bank should be carried out by the committee of the Central Board of the Imperial Bank of India and that the bank rate should be regulated according to the exigencies of the money situation. It should not be subject to any control by the Government of India. We admit such interference by the Government has been found inevitable in extreme cases from international considerations in England and the United States of America. If it is found under any extreme circumstances absolutely necessary for the Government of India to interfere, they might advise the bank accordingly.

91. Among the suggestions put forward by your Chamber for ensuring greater stability of banks, you refer to the restriction of business of banks to *bona fide* banking business. Will there be any difficulty in defining what "*bona fide* banking business" means?—I do not think that there is any difficulty in defining it. It has been usually made clear in all banks' advertisements.

92. Apparently you would accept as "*bona fide* business" all business which a bank carries on under its prospectus. For example, certain banks carry on a trade in addition to banking business.—If it is declared in the prospectus, it should be "*bona fide* business".

93. You do not think it necessary to define what "*bona fide*" banking business is.—No, I do not think so.

94. You say that the growth of banks of the necessary experience and vision to command confidence can only be gradual. Will you tell the committee whether the growth of such confidence can in any way be accelerated by legislation providing for some control and supervision of banks? I think you have apparently admitted this already.—I say that legislation would assist much. The Reserve Bank would hold their deposits or a certain percentage of cash against their current liabilities. They must show commercially sound balances.

95. For the purpose of keeping sound balances, you say that legislation is required. But you stated before in reply to my previous question that the banks do not require any control or supervision or interference with their management. What do you say to this?—My reply already given is quite satisfactory to this question.

96. You say that there is a dearth of bills in India due probably to the absence of a regular discount market. It has been suggested that banks do not realise the importance of investment in bills and that the bill habit will be greatly developed if banks were to reduce their charges for discounting bills. Will you kindly let the committee have your views on this suggestion?—I have already stated that banks provide sufficient facilities for discounting bills. If they lower their rate of interest, it will naturally encourage business.

97. It has been pointed out that the establishment of licensed warehouses might help the creation and promotion of a bill market. You say that there is already an adequate bill market and that arrangements about re-discounting are adequate. That is your view. Is it not?—Yes.

98. If that is so, is your answer in accordance with what you say later on? "If, in future, agricultural produce can be financed by bills drawn against commodities either whilst in the field or in transit, a bill market might come into being."?—Yes, Sir. What we say there is regarding future times. At the present moment the payment of the crops in up-country is made by the exporters who send cash to their agents up-country. As trade expands, the financing of agricultural products by banks by discount or rediscount of bills drawn against commodities is almost a thing which is bound to happen in future. But we maintain that there are sufficient facilities at present for discounting and re-discounting.

99. You agree then that the bill market can still be developed?—Yes.

100. It has been pointed out that the establishment of licensed warehouses might help the promotion of a bill market. Have you anything to say in regard to this suggestion?—We really do not object to the establishment of licensed warehouses, provided all the financial difficulties can

be overcome. We believe that any method employed by which produce can be improved and financed would certainly help the development of a bill market.

101. It has been pointed out by one of the Provincial Banking Enquiry Committees that a bill drawn on a raiyat for advances given to be repaid at the harvest some months later has no immediate prospect of being discounted by banks, as there is obviously the chance that the borrower may not be able to get his crop or a flood may wash it away, or a drought might wither it completely, or there might be delay in realisation. Have you anything to say on this suggestion?—The crop is suggested as merely a security. The bill will be presented to the borrower. The responsibility is on the borrower.

Australian Banks are prepared to advance money against the wool crops. These crops are liable to be destroyed. Similarly Canadian Banking has devoted the main part of its attention to granting agricultural credits in the form of loans to farmers on the security of land and buildings or of growing crops, and to discounting bills drawn against the movement of produce. . . .

102. The information I want to gather is not whether in Canada or Australia they allow credit on agricultural produce. I simply asked the question whether the liability to vicissitudes of the kind I mentioned affects the grant of advances by banks on bills drawn against standing crops?—

Sir Leslie Hudson: Yes, Sir. I am quoting a passage from a book called "Colonial and Foreign Banking Systems". It says "The system of branch banking which characterises the Canadian system enables the banks to employ deposits received in one part of the country with such a great area, where adverse climatic conditions may affect one district very seriously while leaving others uninjured. . . ." This shows adverse climatic conditions are not peculiar to India.

103. My point is this. In certain places crops may be damaged owing to floods, or there may be less outturn in the particular area. My point is whether you consider it desirable to grant credits against the produce *after* it has been gathered and brought to warehouse?—The advance is made on the growing crops in the field. Even if they fail, the man remains. He is the ultimate security.

104. I am referring to the financial status of the cultivator in India as compared with that of the cultivator in either Australia or Canada. The cultivator in India is proverbially poor. Coming back to my question, I understand that by commodities "in the field" the Chamber refer to standing crops?—Yes.

105. *Mr. Ramadas Pantulu*: Some indigenous bankers advance money against standing crops. In some countries money is advanced on the crops after they are insured. In such cases there is no difficulty. In this connection I have got many references to show to the committee.

Chairman: We shall get those references from you later on.

106. It has been suggested that the present dearth of bills in India is due to the financial methods employed by the merchants and firms and that these instead of training the purchaser and the small merchant in the use of credit adopt the primitive device of settling their transactions in notes and cash. Can you tell the committee what your experience in

the Bombay Presidency has been in this matter?—Our experience in this Presidency is that most of the exporters settle their transactions in cash.

107. Therefore, you agree that this observation is justified by what actually happens in the Bombay Presidency?—Yes.

108. You say that the provision of Port Trust warehouses has made the maintenance of godowns by banks no longer necessary. I take it that Port Trust warehouses exist only at the principal ports. In that case will you kindly let me know how the needs for storage accommodation in the mofussil centres are met?—Quite a number of banks have their own godowns in the mofussil. Whether they are absolutely sufficient for the purpose, we are not in a position to say.

109. It has been pointed out by one witness that the rates charged by the Port Trust authorities in Bombay for storing goods in bonded warehouses are very high and that importers have to part with the goods at unprofitable rates lest the rent should go on piling up. Have you anything to say in regard to this complaint?—I do not think it is a fact that the rates charged by the Port Trust authorities for the bonded warehouses are excessive. There are a number of warehouses in the city other than those of the Port Trust. And there we find that in each case the rates vary. When there is pressure, rates go up, at other times when the accommodation is more, rates are lowered. There is a competition even in godowns. But the Port Trust rate remains steady throughout the year. Actually the rates charged by the Bombay Port Trust do not compare unfavourably with the rates obtained at other large centres. I can give you figures, if necessary.

Chairman: If we want the figures, we shall ask you for them.

110. You say that the importation of foreign capital paves the way for the rise of indigenous banking. Will you kindly explain your point a little more fully?—We feel that the introduction of the foreign capital for the promotion of sound business propositions must automatically increase the trade of India and thereby lead to the expansion of indigenous banking.

111. Do you recommend the free importation of foreign capital?—We do not suggest any restriction on importation of foreign capital.

112. *Mr. Khaitan*: Am I right in thinking that the British mercantile community in India have adequate banking facilities for industries, commerce and trade?—I think the answer is that they have. There may be firms who may not consider so. The British mercantile community can get credits which their resources authorise.

113. You would not recommend to this committee any further ways and means for providing more banking facilities to the British mercantile community, as they have already got adequate facilities in proportion to their resources?—I have already given my answer to this in my last reply.

114. At the present moment you do not think so. Is it not?—Yes.

115. Can you say the same thing about the Indian mercantile community?—I think my reply to the Chairman's question applies to this question.

116. That has reference only to Exchange Banks. I am asking you generally. My question regarding the British mercantile community was in respect of industries, commerce and trade, which include foreign trade and internal trade. Can you say that the Indian mercantile communities have adequate facilities for all these purposes?—It is a question which this Chamber can hardly answer.

117. You have no idea about it?—No.

118. If they complain that they do not have adequate banking facilities for either industries or foreign trade or for internal trade, do you think they have good reasons for complaint?—This is a hypothetical question really.

Chairman: This question does not arise in the case of the Bombay Chamber of Commerce. They have no knowledge about it.

119. *Mr. Khaitan*: You must have heard that Indians complain they are not treated by Exchange Banks in the same way as Europeans?—I have heard it stated.

120. How far is it justified?—I do not think there is any justification for such a complaint.

121. I can give you one example. In Calcutta European firms who purchase jute and store it in mufassal godowns get advances from Banks, but similar facilities are not given to Indians of whatever standing they may be?—I should like to answer this question as a merchant. I have good many years' experience both in Burma and India. I have found that Indians do not give any statement as to their financial position and it is only by watching their business, that one gets an idea about their resources, whereas the Europeans give to the banks a statement showing their balances, their resources and such other information. That is not so in the case of Indians.

122. Therefore, I put this proposition to you that the existing banks cannot give the same facilities to Indians, because they are unable to ascertain their status and financial position?—Yes. But I do not say that there is any differentiation.

123. I do not say that there is a differentiation on racial grounds. What I mean to say is that the exchange banks are not in a position to ascertain the status and financial position of Indians?—I am afraid you are taking me into a racial question.

Chairman: Mr. Khaitan has said that he is not asking that question on the racial grounds. If you do not wish to answer the question, you may not.

Witness: If you put it quite otherwise, I shall answer it. We do not admit that there is any differentiation in the treatment of Indians and Europeans by the banks.

124. *Mr. Khaitan*: On racial grounds you mean?—I mean that if their credit is good, Indians will get the same facilities as others.

125. Do you think that Indian concerns controlled by or managed by Indians would be in a much better condition to know of the real position of Indian clients than European institutions?—No. They have the same means of finding out. There is a department for collecting the information. That department asks for the balance-sheet and then they assess the standing of the firm.

126. Would not an Indian manager of a bank be in a better position to know the conditions of Indians with whom he moves in society?—I do not think so.

127. The Chairman has already asked you about the evidence given by you in regard to investment trust companies. I would like to know

what is the distinction that you would like to draw between investment trust companies that you recommend and an industrial bank?—I think I shall take it that an investment trust company is an aggregate of private wealth, whereas an industrial bank is a somewhat different matter.

128. You are aware that Indians advocate the establishment of industrial banks not for the supply of initial capital, but for the extension of industries and for replacement of machinery as also for the supply of working capital. Would you consider the existence of such an institution to be unnecessary in India?—I think that is covered by the Chairman's question.

129. After the Chairman's examination, do you now think that the bringing into existence of an industrial bank is advisable for India?—See our answer 4 to Section 1.

130. Is it your experience that Europeans with big banking facilities like Ralli Brothers and Volkart Brothers are ousting Indians from the internal trade?—Our figures of import show that the European firms are losing trade.

131. I am asking you about the internal trade. Formerly, the whole of the crops was moved from the interior to the port through Indians. Now firms like Ralli Brothers and Volkart Brothers have gone into the interior and they buy stuff direct from the agriculturists and move them to the port. Is that not your experience?—That is not a new feature surely. Rallis and Volkarts have had agencies up-country ever since I have been in India, for 20 years at least.

132. What about the Japanese foreign trade?—The Japanese only started recently.

133. That portion of the business formerly used to be done by Indians?—Yes, but you must admit that it is economical to cut out the middlemen, if possible. If your producer could sell to the consumer, he is going to get more money for his crop.

134. I do not know about that, but the fact remains that formerly that business used to be done by Indians. I shall give you the example of Japanese foreign trading companies. They are financed by Japanese banks. They are able to go into the interior and buy the stuff direct from the agriculturist and move them to the port and to that extent Indians have been ousted from the internal trade?—That is possible. It is also possible that the Japanese by sending their men upcountry and buying direct from the consumer have enlarged the trade between India and their own country. Japan now imports from India a very large quantity of cotton.

135. Have you got any ideas about the Imperial Bank being allowed to do Exchange business? Have you any objection to it?—We have answered this question very fully in Section 5, answer 18, and we do not feel that we can add anything to those answers. I would like to mention that you have a member on your own Committee and we cannot give you any information that he cannot.

136. I am asking you from the point of view of merchants as to what objections there could be if the Imperial Bank were allowed to do Exchange business?—We would rather not add anything to what we have already said on the subject.

137. A suggestion has been made by a witness that on deposits by Foreign Exchange Banks (and by foreign is meant non-Indian) there should be a tax, say, of ½ per cent.—Do you want a tax on capital coming into the country?

138. I refer to deposits by Indians. It is proposed to tax such deposits in order to encourage the deposits of Joint Stock Banks. I do not think it is a very good suggestion.

139. Could you make any other suggestion by which Indian Joint Stock Banking could be encouraged?—No, we cannot.

140. You told the Chairman that you would not object to licenses being made necessary for new institutions coming up. What do you think about the existing Exchange Banks extending their sphere of operation inside the country? Would you think that would be a fit subject for the taking out of a license?—I assume that a license is really to put the authorities in a position to judge the nature of the new banking business which it proposes to do. We do not think it would be advisable to tax an institution that has been in the country for 60 or 70 years.

141. You know there are several Exchange Banks with very big resources in existence in India. Suppose they begin to expand their sphere of influence into the interior. Would not that seriously compete with the business of the indigenous bankers?—I do not consider that it would.

142. Do you think that the extension of the Exchange Banks' operation inside the country would so much expand the business that fresh business would come to them and indigenous bankers would not be thrown out of the field?—There is room for both. If the Exchange and foreign banks were to extend their business upcountry, it would be a service to the country.

143. Have you heard that a serious complaint has been made by the indigenous bankers that by reason of the Imperial Bank starting several branches in the interior it has been seriously competing with their business and that they have been thrown out of business?—We have heard that stated but have no knowledge of it.

144. Would not the same thing happen in regard to Exchange Banks extending their sphere of business? Has there been any serious expansion of business of Exchange Banks upcountry?

145. If conditions begin to be imposed after the Exchange Banks have started branches in the interior, would not the cry of expropriation be raised?—I have no doubt that the cry will be raised.

146. Would you advocate the imposition of conditions after the Exchange Banks start their branches or before they do so?—The Chamber would not like to pass any opinion on that.

147. *Mr. Buckley*: You state that a Bank whose head office is outside India should be compelled to keep a percentage of its current liabilities in cash or in Indian Government securities. The Chairman said that he presumed that the current liabilities meant current liabilities in India. I would like you to tell the Committee what is your reason for suggesting that the option should be given of cash or of Indian Government securities. The idea of the option is that if it were entirely cash, a fairly large amount running into 50 to 80 crores would be dislocated. Another thing would happen: the banks who have to make deposits would have

to raise money and most probably they will raise money by the sale of Government securities. The primary reason for the suggestion is that the banks who are contributing probably 7½ to 10 per cent.—whatever the ratio fixed—will be able to keep the deposit as an interest earning deposit to a large extent. It will be very hard for banks to contribute more than 10 per cent. of their current liabilities which will have no earning capacity whatever.

148. Would it not mean a considerable contraction of credit to have large cash reserves with the Reserve Bank which, so far as the Exchange and Joint Stock Banks are concerned would be immobilised?—It distinctly would. There would be contraction in credit for the reason that the currency was not there. I cannot see a Reserve Bank or a Central Bank keeping its funds in hard cash. I think the money, eventually, if not at once, would come into the market, but there would be very serious dislocation at the time.

149. I think it was suggested that the Reserve Bank in addition to their capital should look upon these cash balances of other banks as additional capital. Do you think that is a good thing?—It would be a redundant capital. It is almost essential that they should reinvest it.

Chairman: I think his point was that that capital in the long run would be used for trade purposes. At the outset there might be some dislocation, but the Reserve Bank having got the capital will not sit on that capital; it will be used for trade purposes.

150. *Mr. Buckley*: You say that legislation should provide in the case of a bank whose head office is outside India for a cash percentage of liabilities being maintained with a Central or Reserve Bank. I take it it was not your intention to differentiate between banks registered in India and banks registered abroad. It was merely a slip?—It is probably a slip.

151. You consider that both classes of banks should be given the option?—Yes.

152. In answer to the question regarding the practice of banks releasing goods on trust receipts, you say that the existing system works satisfactorily. That may be so as long as the terms of the trust receipt are conscientiously carried out, but unfortunately cases have arisen where the spirit of the trust receipt has not been adhered to and legal questions have cropped up leaving their validity sometimes in doubt. They are a very cheap form of credit; in Bengal they carry a stamp duty of only 12 annas and they are very largely used. It has therefore been suggested that fraud under the cloak of these documents should be made a criminal offence. What is your opinion?—We think that anything in the way of breach of trust should be punished or should be made a criminal offence. There is of course something about the trust receipt which we desire in the way of a security. The signing of the receipt indicates at the present moment only a moral responsibility. Anyhow we agree that there should be greater protection for the banks in connection with trust receipts and if the law were tightened up, it would be to the advantage of trade in India because the facility of giving goods on trust receipts is really desirable.

153. *Mr. Manu Subedar*: I would like to ask you in the first instance with regard to the Managing Agency system. You say that it has been

very useful for providing additional capital for industrial enterprises. You mean in the first instance for promoting and issuing of shares and later for financing.—Yes.

154. Then you further say that Managing Agents incur losses in financing their own concerns. Could you tell us whether the cases of such losses were extensive or whether they were isolated exceptional cases?—I should say they were not isolated cases by any manner of means. In times of crisis such as Bombay has been going through, such losses have been extensive. I am referring to the cotton mills in particular.

155. Have not the Managing Agents in such cases turned their loans into debentures?—In many cases they have not.

156. They have left them as debts?—Yes.

157. If the concerns making losses, when these debts accumulate, go into liquidation, such concerns pass into the hands of the Managing Agents, the shareholders losing everything.—I am afraid you are going rather deeper than the Chamber of Commerce can give answers.

158. If the Chamber of Commerce cannot, I do not know who can.—Possibly the Millowners' Association.

159. You have spoken of the Managing Agency system in terms of approval and laudation. I want to know whether in the financing by the Managing Agents of their own concern any of them have at any time lost considerable sums, whether such advances have not been in prosperous times very safe advances and in very bad times the first charge which ultimately brings the concern into their own hands?—There have been instances of such cases where the debenture holders have got everything and the Managing Agents have lost everything.

160. There may be some cases of that, but have there not been cases of Managing Agents who financed the mills taking over the mills?—There are cases surely.

161. You refer to losses incurred by Managing Agents of their deposits during the last few years. You have in mind European Managing Agents or Indian?—I can only speak for one and that is European managed.

162. Do you consider the Managing Agency a family corporation or do you consider it a business partnership?—We have never said that the Managing Agency system was perfect. We were trying to point out some points which were good, we admit there are bad points also.

163. You think it is a sound system for the Managing Agents to finance their own concerns?—I think that the Managing Agency system has done a great deal for the cotton trade in Bombay, but I admit that it is not by any means a perfect arrangement.

164. Do you know of any cases where Managing Agents do other things besides managing their own mill; they trade, they speculate?—Yes.

165. If they speculate and get weaker, does it sometimes happen that the Bank would withdraw the cash credit even if the mill is sound, merely because the Managing Agent has become weak?—It is possible.

166. Do you know of Managing Agency rights being hawked round to enable the Managing Agent to meet his own personal financial difficulties?—I have no knowledge of that.

167. Several cases have occurred in Bombay?—They are not bruited abroad.

168. I want to make out that the European Managing Agency system has a different connotation and different constitution and that the Indian Managing Agency system is purely a family corporation.

Chairman: I think the witnesses have already answered that question.

169. *Mr. Manu Subedar*: Do you approve of the system by which an industrial concern could receive deposits directly from the public as a sound system?—It has worked very well in times of prosperity.

170. But the ordinary depositor, the average individual, would have no knowledge either of the vicissitudes of the industry or of the difficulties or otherwise of a particular concern in which he deposited his money—That is so.

171. It would be much better for the depositor from his point of view if there was a bank intervening which would give a better means of knowing what the industry was doing. For the safety of the deposits, don't you think that it would be better if the deposits were with the bank in the first instance and the bank then gave out advances as they thought proper according to the standing, credit, and the management of a particular concern?—I think, generally speaking, you may take it that we do not consider the deposit system financially correct.

172. That is what I am aiming at. It is a primitive form of banking.

173. I would like to know whether you do not think that the system of banking broke down on account of the Government borrowing on a very much larger scale and at very much cheaper rates?—We do not think so.

174. Let me put it this way. Before the war Government borrowed sometimes 2½ to 4 crores and then later on 7 crores. Subsequently they raised 30 to 40 crores. They opened out unlimited loans and offered high rates, such as 6½ per cent. Bombay Development Loan. Don't you think that such a rate would attract those who ordinarily place deposits in mills, etc.?—Higher rates and better security would attract money anywhere.

Chairman: Is that also not a fact that owing to the boom the deposits in mills grew?—Perhaps they did.

175. You spoke with regard to the debentures on two or three occasions, particularly in the light of the Chairman's questions, and you said that the debenture issue was not 'fashionable' in India. What I want to ask you is—Is it because debentures were offered and not taken by the public or is it because debentures have not on a large scale been offered to the public?—I cannot call to mind any issue of debentures on a large scale.

176. I put it to you that the issue of debentures in this country is hemmed in by many difficulties. You know that if once a company has issued debentures, its shares would not be acceptable to any bank as collateral security. Then there is the 7½ per thousand duty on the issue of debentures. My point is, do you consider that a light or a heavy stamp duty? Do you think that that interferes at all with the issue of debentures?—The cost of the stamp duty would fall on the company and not the holder.

177. You know that the investment trust houses in the United Kingdom find bulk of their additional money by way of bonds and in India if the heavy stamp duty continues, debentures of investment trust houses, which you suggest, would not come into existence on account of this difficulty. In England these debentures are offered in the form of bonds which would be a perpetual offer to the public. That makes the bond a very popular document in that country. Now in India, do you suggest that any similar effort should be made? I put it to you that the heavy stamp duty would militate against it. Do you think it would or it would not? Would you suggest a reduction on this particular form of duty if we are going to seek a larger expansion of financing?—I do not see how this comes within our purview.

178. Do you consider that the additional block capital required for expansion of an industry should come by way of debentures of that particular company?—It is perfectly legitimate to find a portion of this finance by that method.

179. Do you consider that method better than short term deposits? If so, would you suggest the removal of those difficulties which I have pointed out, namely, the initial stamp duty and the stamp duty at transfer, to make debentures more attractive?—I have no objection to the reduction of the stamp duty.

180. Your members are engaged in large trade and you say that the present banking facilities are adequate so far as you are concerned?—We get the credit which our financial position warrants.

181. And that is adequate?—Yes.

182. Your members are not engaged in the trade of taking commodities at ports and then distributing them to the 700,000 villages in India; nor are they engaged in the trade of bringing the produce of the field, from the upcountry for instance, to the ports; of course leaving out a few exceptions who are engaged in the latter form of business?—We have said in answer to that question before that the bulk of the produce of India is handled at the ports.

183. I say your people are not concerned with the marketing of produce; nor are they concerned with little factories, little plants, etc., and that the vast Indian community which is so concerned is complaining that they are short of finances?—Yes. We merely make a statement from our own knowledge. We say that banking at the ports is sufficient.

184. With regard to the banking in the ports, you said that India is over-banked at the ports at the moment. Still all these banks are making considerable profits?—How do you know that?

185. You have not known of any banks that has gone under either?—Not going under is not making profits.

186. With regard to the banks working in India, taking them as a whole, would you say that the bulk of deposits came from Indians?—Yes.

187. Do you agree that in the case of the exchange banks the bulk of the advances go to European merchants?—I would not say that.

188. Would you be surprised if I told you it was so?—No, I would not be surprised.

189. Is it true that these deposits are handled by banks which are not Indian? Let me put it clearer. There are 600 branches of banks in India of which the indigenous banks have only a small number, counting the Imperial Bank for the time being as a part of them. Of all these deposits which are put with these banks, the bulk of them comes from Indians; and the suggestion has been made to us that a large part has been used for financing your trade?—I would not say a large part of it.

190. Do you not admit that the bulk of foreign merchants in this country secure adequate finance and that the bulk of these deposits come from Indians?—The bulk of deposits presumably come from Indians.

191. *Mr. Buckley*: Is it true that the deposits of the foreign banks, which may be largely drawn from India, are very largely invested in Government securities? Is it not also true, I ask you, that at certain seasons of the year foreign exchange banks draw very largely on London in order to finance the foreign trade of India?—Yes.

192. *Mr. Manu Subedar*: With regard to the Imperial Bank who have extended new branches in India under the Imperial Bank of India Act, are they the best means of expanding banking in your opinion?—Have we stated that they are the best means? I do not think we need answer your question. We do not want to answer any further questions with regard to the Imperial Bank of India. We hope you will have at your disposal people who will be much better able to answer these questions than we.

193. Certain exchange banks have opened branches in the interior of India; and you have mentioned that younger institutions are at a disadvantage against older ones. Now I want to ask you whether the younger ones should be penalised simply because these old institutions are well established, and I also want to ask whether the Imperial Bank of India is the best means of expanding banking?—The Imperial Bank has certainly created a number of branches.

194. Would you suggest any other machinery for the expansion of banking?—(No answer).

So you do not want to answer this question?

195. You have said that the Bank rate is artificial and you also said in reply to the Chairman that it is probably more so in India than in other countries, referring to the divergence between the market and the bank rate. To what would you attribute this?—We attribute this to the lack of investment facilities for short term money.

196. But why should not the Imperial Bank of India fix their rate at what is a proper rate?—But there is a natural adjustment later on.

197. You know that cases have occurred when the bank rates have been increased even if it is not justified by the state of the Imperial Bank's cash balance and against the protest of the Imperial Bank?—We are not in a position to answer that question.

198. You are satisfied that the Bank rate in India is perfectly sound?—I do not say so.

199. The motive why Government interferes is well-known to you?—Government does interfere in the fixing of the bank rate sometimes. That is why we say that the Imperial Bank rate should be controlled by their own Central Committee.

200. In answer to the Chairman you said that having regard to the international situation Government interference will be justified, as it has been in the United States. You know that the Government interference in India is to watch the exchange situation?—We presume so.

201. So, you think Government interference is justified in India?—We have not said so.

202. As conditions are at present, you think frequent interference by Government is a necessity?

203. *Chairman*: His answer was that Government of India does interfere, but he admits that that interference must be inevitable as in the case of the United States of America?—Yes, that is our position and we are not prepared to go any further than what we have told the Chairman on that point.

204. *Mr. Manu Subedar*: Would you admit such interference?—I think our reply to the Chairman is quite sufficient on this matter.

205. You said in regard to the rediscounting of *hundis* there is sufficient facility at present. You mean the *hundis* of merchants or indigenous bankers?—Both.

206. You know there are no facilities at present in regard to the rediscounting of bills by banks themselves?—Is there any need for that?

207. It has been suggested to us that there is need for it and it has been suggested that it should be one of the functions of the Reserve Bank when it comes into existence?—Yes, I know some attempts were made in Bombay to form a discount house and they came to nothing.

208. It is generally said by bankers that there is an insufficiency of good first class bills in which they can put their money. What is your opinion on that?—It may be so. An attempt was made to have a discount market.

209. *Mr. Lamond*: Have you heard of any bank refusing to rediscount bills?—No.

210. *Dr. Hyder*: In your answer to Chairman you said that you were familiar with the English system. Is it not a characteristic of the English system that it serves the needs primarily of commerce and not of industry?—That is so.

211. We have got the English system and the problem that we have got to solve is this: whether we cannot adapt this English system so that it can serve not only the needs of commerce but also of industry. In that case I see that you make two suggestions, that you should have investment trusts and issue houses. Can we so adapt the existing system short of founding these new institutions in such a way that the existing system serves the needs both of commerce and industry?—We don't quite follow your point.

212. Let me make my position a little more clear. The commercial banks accept deposits for one year now, as a general rule?—That is so.

213. If the banks accept deposits for longer periods, say 5 or 7 years, would it not to some extent solve this difficulty which we have and people in the United Kingdom have?—I do not know how far the suggestion would appeal to the banks.

214. One of you gentlemen said that there is a banking concern in Burma which gives the option to its customers of depositing their funds for longer periods than one year, and it is said that that concern is very flourishing.

Do you not think that if this practice were increased, the Indian investor would have more confidence and the needs of industry would also be met?—If the depositor is prepared to do so. At present the law does not prohibit the acceptance of deposits for longer periods than one year. We see no grave objections to your suggestion, if the banks and their depositors have no objection.

215. Please tell me whether there is anybody to whom the investor can turn for advice and assistance as regards investment in industry. Is there any person or agency in India existing at present which mobilises this capital?—You are probably referring to the banks in Germany which gives such advice. I do not know of any such institution in India at present. No doubt clients can obtain advice from their bankers though not to such an extent as in Germany.

216. So that the Indian saver is shy to invest in industrial concerns?—Yes, to some extent.

217. In regard to your suggestion to the Chairman that there are specialised industrial banks in Germany, is that so?—I am afraid, we have no intimate knowledge of these banks.

218. You say that the Institute of Commerce in Bombay imparts theoretical training to people who are engaged in the art of banking. Have you looked at this question from the point of view of the Universities and whether there is scope for such students obtaining their practical training?—The Sydenham College of Commerce gives opportunities for students to be trained in commerce and banking.

219. That is the theoretical training, but what about the practical training?—Most of the students under training in the Institute of Bankers receive both theoretical and practical training at the same time.

220. But what about students trained in the Universities who don't get practical training?—When they seek employment in banks, practical training will follow.

221. *Mr. Lamond*: A great deal has been said about the development of a Bill Market in India. At present stocks held up-country are usually financed by way of Cash Credits and Loans and interest is only payable by borrowers for the actual number of days accommodation is taken. Are you in favour of pressing borrowers to give bills for such accommodation or allowing them to take advances in the form they find most suitable and economic?—Borrowers should be allowed to obtain accommodation in the way they want.

222. *Mr. Rushforth*: Is it likely that the system of cash credits can ever be replaced by bills or do you think that bills can be developed side by side with the present system?—The development can be made side by side.

223. *Sir Hugh Cocke*: With regard to the question of investment trusts and issue houses, do you agree with the suggestion that Industrial banks and Investment trusts must both acquire their money from private individuals?—Yes.

224. So that the difference between the two lies in the employment of the funds, that is, the investment trusts spread their investments over a wide field and follow a policy of averaging returns?—Yes.

225. Your point is that industrial banks in India would be in a dangerous position when they are called upon to make advances to young industries?—Yes.

226. *Chairman*: Cannot an industrial bank before making advances satisfy itself that the money that they are called upon to lend is sufficiently safe?—There will be a great danger all the same.

227. Of course that depends really on the organisation of the bank and how it manages its business?—Yes. But still the danger is there of advancing money to an absolutely new concern.

228. *Sir Hugh Cocke*: As regards the question of investment of funds of insurance companies which the Vice-Chairman raised, I take it that so far as India is concerned, there are only a very few "A" class companies compared with Great Britain?—Yes.

229. Then as regards the financing of warehouses for produce, the main objection of the Chamber is in regard to the heavy financial commitments. I take it that it is not only in the construction of the warehouses, but if you are going to lay out large sums in equipment, etc., the warehouse charges will be very heavy?—That must be the case unless they get extraneous assistance from Government. Whether it should be the function of Government to give finance for such undertakings is probably debatable.

230. *Chairman*: And so your point is, even if the Government were to lend some money, they would probably charge interest on it and therefore eventually the charge will have to be borne by the man who stores the produce?—Yes.

231. So then, your point is that the question is undoubtedly fraught with difficulties?—Yes.

232. *Sir Hugh Cocke*: You say that "the certificate given by auditors should be more explicit as regards debts considered doubtful, the true market value of securities and the proper valuation of investments at the date of the audit". Would you kindly let me know in what ways you want the certificate to be more explicit than at present?—We consider that if the provision for bad and doubtful debts is shown in the balance sheet, it ought to be sufficient. We are quite aware that in the balance sheets of British and American Banks bad and doubtful debts are not always shown.

233. You are aware that form "F" has now been altered and the banks are not now required to show their bad and doubtful debts provided specific reserves are held?—Yes. Our recommendation is only to create more confidence and obviate criticism.

234. Would you suggest any special form of certificate by the auditors?—If the auditors and the directors are satisfied about the provision, that would be sufficient.

235. Then as regards the market value of the securities, the present form "F" requires that the basis of valuation has to be stated and nothing more is required. Do you suggest that something more should be given?—I think this is entirely a matter for the directors and the auditor.

236. Provided the market rate is given, you will have no objection?—No.

237. Where the investment stands in the balance sheets at a figure in excess of market price, I suppose you will show the market price separately?—Yes.

238. Then as regards the licensing of foreign banks, am I right in assuming that you are against licensing of the existing foreign banks in the country?—Yes.

239. But you have no objection to their being licensed in the case of new foreign exchange banks that might come into operation in this country?—Yes.

240. Supposing this Committee recommended the licensing of existing foreign banks, would you consider it desirable for foreign banks to give their balance sheets so far as the volume of their business in India is concerned?—It will be very difficult for them to do so. Of course certain information is at present given to the income-tax authorities in India. I don't know how these particulars will interest the public. It will, moreover, be difficult for a bank trading in 6 or 7 different countries of the world, to separate their assets and liabilities in this country alone and their profits so far as their transactions relate to India.

Sir Hugh Cocke: It should not be difficult to give separately the assets and liabilities of the Foreign Bank in India.

Mr. Buckley: It might be difficult to show the assets and liabilities separately, but not profits. As a matter of fact our profits are now given to the income-tax authorities.

Chairman: You say that it will be difficult to separate their profits for India, but Mr. Buckley says that there will not be any difficulty whatever Sir Hugh Cocke points out that there is no difficulty in regard to assets and liabilities either. So that, I take it that it is quite possible to give all the information required.

241. *Mr. Buckley*: Do you suggest that the figures supplied should be published for the information of the public?—No.

242. *Mr. Buckley*: I think the idea was that the statement given by the banks, whether Exchange Banks or any other banks, should be given merely to the Financial Authority of the Government for the information of the Government only. Government then would publish it in a consolidated form. The idea is that the foreign banks should do the same thing as is done in the case of joint stock banks in India.

243. *Sir Hugh Cocke*: There is again the question of minimum capital. You have mentioned that 50 per cent. of the issued capital should be the minimum paid-up capital. I ask you if a bank has an authorised capital of one lakh and subscribed capital of Rs. 5,000 and half of that amount is a paid-up capital, should that satisfy the requirements of the law?—There should be a sensible ratio between the paid-up capital and the authorised capital.

Chairman: You have not mentioned the ratio of paid-up capital to the subscribed capital.

244. *Sir Hugh Cocke*: I take it that if any provision in law is made that a suitable proportion of authorised capital should be subscribed and a suitable proportion of subscribed capital should be paid-up capital, it will serve your purpose?—Yes.

245. *Lala Harkishan Lal*: You say "Rates of interest vary with the nature of the security, according to good or bad parties, and also in relation to the seasonal rise and fall of the Imperial Bank of India Rate". Is this an universal practice?—In what respect?

246. With regard to parties and seasonal rate of interest. For example, in Amritsar we were told that rates at which the Exchange Banks advance money against European imported goods are fixed throughout the year and also we know that the Imperial has two rates. They do not follow according to season?—It is not as you say, in Bombay.

247. You have to take it from me that that was the subject of evidence before me. Is there no minimum fixed at which banks advance money on

imported goods and also goods stored in warehouses?—The minimum is fixed. The rate is based on the Imperial Bank rate and varies according to the seasonal rise or fall.

248. Are not imports usually carried in transit until payment of the bill at 6 per cent.?—Yes.

249. If the party concerned does not clear the goods, then the rate becomes more than 6 per cent. according to the season?—According to the season and the money condition in India.

250. *Lala Harkishan Lal*: Then you say "First-class borrowers can obtain loans at the Imperial Bank rate or at 1 per cent. over it". Do you mean to say that they can obtain loans with or without security or only with security?—Almost invariably with security.

251. What security?—Either imports or exports.

252. Not debentures of industrial concerns?—Government securities may be accepted.

253. You say "various classes of securities accepted by banks are: Government paper, Municipal and Port Trust loans, prescribed Railway shares, first-class industrial securities". What do you mean by "first-class industrial securities"?—Shares of the Industrial concerns such as cotton mills.

254. You mean first-class shares and not debentures?—Debentures are not first class securities.

255. That may be in Bombay but what about other places outside Bombay?—We do not know about other places.

256. You also mention "Usance Bills and Liquid Assets". Will you kindly tell me what you mean by "liquid assets"?—Liquid assets are manufactured goods or goods in process of sale.

257. Stored at mills or in godowns?—Both.

258. You say "My committee consider banks have financed industries as far as the security offered permits". What security do you refer to? Is it the goods or the plant also?—Yes.

259. Do the Exchange banks also lend money on blocks of the industrial concerns?—Yes. That is not their essential business. Their essential business is exchange, but they have to advance money occasionally.

260. *Lala Harkishan Lal*: Your statement should be made a bit clearer. You say "Banks have financed industries as far as the securities offered permit". You do not say what kind of security?—No, we do not define securities. We do not say securities of particular kind.

261. You refer to securities which the banks consider good securities?—Yes.

262. Suppose we invest about a crore of rupees in an industrial concern, how much advance can we get?—I cannot answer this.

263. You say that the advances are given. But I think it is a very rare thing. Is it a very rare or common thing?—I cannot answer. It depends on the class of business that the man is doing.

264. You state "My committee have not observed any trade in which credit facilities are not adequately provided for by the Exchange Banks". Read that answer with the answers you just gave to my questions and then tell me if you still maintain that the Exchange Banks do give adequate advances against blocks?—Yes. My committee think so.

265. You say "My committee have not observed *any trade*". Do you mean to say by the words "any trade" all goods so far imported? Banks advance money against that. Is it not?—Yes.

266. You do not keep any distinction in goods—hazardous, non-hazardous, perishable, non-perishable, or marketable or un-marketable?—If the goods are insurable, the Insurance Company is the particular part of the Bank's security. If the Insurance Company is satisfied, then the Bank is satisfied.

267. Even though the goods are marketable or unmarketable?—They are supposed to be marketable.

268. In your next answer you say "Clean credits are available in the case of customers of good financial standing". Does that mean that the goods are cleared out and the bills remain uncleared until a later date?—Yes, that is the idea.

269. You have been asked several questions with regard to audit. You state "It might be mentioned that the certificate given by auditors should be more explicit as regards debts considered doubtful, the true market value of securities, etc." Do you mean to say that you will authorise the auditors to make enquiries outside the Bank with regard to debts being doubtful or undoubtful?—We presume that the auditors make every sort of enquiry. It is their job to get themselves satisfied whether the securities are good ones or not.

270. May I take it that they do not make that enquiry now and that you propose to do so?—We presume they do make.

271. Then there is no difference between the present practice and the practice proposed by you?—We suggest this only as a development.

272. You state "My committee are not in favour of any restriction of any kind. Healthy competition for legitimate business is the best safeguard." Do you think that the competition which the present Exchange Banks, Imperial Bank, and Co-operative Banks offer to the Joint Stock Banks a healthy competition?—Yes, we say so.

273. Do you think that this standard of competition that now prevails would always be healthy?—If it maintains healthy as it is now.

274. You know that the Exchange Banks have practically the monopoly of financing the export and import trade?—Yes, that is so.

275. If an Indian Joint Stock Bank attempts to come in, do you think that under the present circumstances they can come in?—There is nothing to stop them.

276. Neither the position nor the rates of interest paid on deposits and the rates of interests charged on loans?—We presume that the Joint Stock Bank will come in on competitive terms.

277. Yes, that is so provided they get deposits on competitive terms. A clean balance-sheet is the chief thing.

278. You know that the other Exchange Banks have the monopoly of the business?—It is not monopoly; it is a question of public choice.

279. But the public choice must depend on sensible grounds?—That depends on the stability of an institution.

280. What would help to establish the stability of an institution? Is it the management or the capital?—If that institution starts with a sound balance-sheet for six months, that would suffice.

281. Do you think it would be able to draw deposits at the same rate as the other Exchange Banks?—We assume it should be able to. Otherwise there is no idea in starting the bank.

282. Is it your experience of both banks started by Indians in this country and by Europeans in this country; or your experience is different?—I do not think I have criticised that in the questionnaire.

Chairman: No, they have not.

283. *Lala Harkishan Lal*: I am asking the meaning of "healthy competition". I am told there is a healthy competition. But if there is an unhealthy competition, then there must be reasons for the same. At present, export and import trade is the monopoly of the Exchange Banks and that being the case, any Indian bank coming in for that business will have to face unhealthy competition. That is why I am asking this question. The reasons asked are the same as given in the case of the shipping company. The case is exactly parallel. Indian shipping has been crushed on account of vested interests. It is exactly the same parallel case with Indian Banks coming in for exchange business.

Chairman: I do not think the Bombay Chamber would subscribe to that view.

284. Supposing Indians do believe that it is an unhealthy competition, do you suggest a way out of it?—I leave it to you. We maintain it is not unhealthy.

285. You state "Any institution calling itself a bank should be registered and regulations should prescribe the minimum amount of paid-up capital in cash in proportion to the authorised capital." Supposing Rs. 5,000 is the authorised capital, 50 per cent. of that would be paid-up capital according to your suggestion. May I know if you will call an institution a Bank which has only Rs. 2,500 paid-up capital or would you have a fixed absolute minimum limit of paid-up capital?—I think full answer is given in my reply.

Lala Harkishan Lal's point is this. He says if a bank is started with an authorised capital of Rs. 5,000 and according to your suggestion they should have Rs. 2,500 paid-up capital, would you allow that Bank to do business or not?—No, Sir. We presume that an institution which is going to be registered must have a certain minimum capital.

286. That is the point. But would you state the amount of capital?—We cannot define that.

287. In any case you admit the point of Lala Harkishan Lal that there should be a minimum limit. I understand that you are not in a position to suggest what that minimum limit should be.

288. *Lala Harkishan Lal*: In the same question you say "Firms should be compelled to keep a minimum cash ratio". What do you mean by "firms"?—Firms doing banking business.

289. Would you include in cash the balance with the Imperial Bank, the balance with the firms' Agencies and Government securities or not?—Yes. The demand for a ratio will be made by the Reserve Bank when it is established.

Chairman: I put that question and the Chamber think that it is necessary to include that balance.

290. *Lala Harkishan Lal*: The agents of the banks doing business, for example, remittance business on a large scale, will have balances all over their branches and all over their agencies. Is this to be reckoned in the minimum cash ratio?—Yes, that is the idea.

291. You say "Seeing that the general cry is that India is deficient in banking facilities, my committee see no good reason why any restrictions should be placed in the way of the expansion of banking by an attempt to license foreign banks". From the answer given I understand that the "license" would mean no restrictions but only certain duties to be performed. Will there be any restrictions or will there not be?—We do not approve of any restrictions on the business of foreign banks.

292. Giving or not giving of licenses does not really concern the question of expansion of banking. If a license is to be given, and if it means only that at certain times the balance-sheet has to be watched, then the expansion of banks of foreign agencies is healthy?—They will have to follow the prosperity of India.

293. At the same time if Indians do not want foreign banks any longer making encroachments on their rights or would-be rights, do you not think that licenses must contain restrictive conditions?—Our Chamber do not desire to give any answer to this particular point.

294. That particular point, I know, you would not answer, but I still put it to you. In the principal causes of bank failures you have left out trade slumps which contributed to the failures of the banks?—That will come under (*d*) which states "Insufficient liquidity of funds due in part to over-advancing on long term or lock-up advances".

295. May I suggest that sometimes some mischievous propaganda might also be one of the causes of the banks closing.—We have replied to it in Answer No. 12.

296. I was not thinking of any real remedy, but it may be one of the causes.

Chairman: This refers to the causes of bank failures in the past and it is not a general question about the various causes which may lead to bank failures.

297. *Lala Harkishan Lal*: I put it to you definitely that propaganda might lead to it. Is that your experience or not?—It is not within our experience.

298. Have you mentioned speculation in the causes. Speculation has also led in Bombay to certain closures of banks?—We have given that in answer 8 (*e*) where we refer to misuse of the Banks' funds.

299. You say that 'with the large field available and the paucity of banking concerns, it should follow that the growing demand for banks should furnish good prospects for individuals trained in banking'. Individuals trained in banking would mean the produce of the banking Institute, those who have been examined?—We presume that they are the best material being turned out.

300. You refer to those who really pass the examination.—They may pass or merely study for their own advantage.

301. To what positions, do you think, should gentlemen passing out of the Institute of Bankers aspire?—It depends on their own merits;

the whole trend is towards progress. Presumably they could aspire to managership in course of time.

302. You say: 'It is the substitution of one form of banking for another, and the process must be gradual. The immediate prospects are the gradual substitution of Indian-trained banking staff for the European-trained staff and thereafter the rate of progress much necessarily be somewhat low'. What I understand is that Indian staff should be substituted in place of European staff?—That is the trend.

303. I should like you to explain the idea underlying your statement where you refer to legislation restricting business to *bona fide* banking business. Would you like to favour the Committee with your idea of what is really *bona fide* banking business?—I do not think we can elaborate that at all. It is the business which the bank claims to do. In this connection we can take the example of the *Multanis* who are, I believe, absolutely and wholly Bankers and *Marwaris* who undertake trading in addition to the banking business. The former you would call *bona fide* banking business and the latter you would not.

304. In some of the reports an idea has been suggested that the shroff or the Marwari should separate his banking business from his other business and then alone should he be assisted in the way proposed. That is why I was asking you whether the business of buying and selling of goods is a part of proper banking. You say 'General agency, such as buying and selling stocks and shares, Government and other loans is undertaken by banks. There are also safe custody departments. Purdah Offices and Trustee Departments'. Would you kindly let us know what are Trustee Departments?—We have not got a Trustee Department here, but I understand a bank which undertakes the executive charge of deceased estates or the control of estates belonging to minors, etc., would be a Trustee Department.

305. The words 'Trustee Department' are used in a much wider sense in England?—They are used here also, *e.g.*, for the Court of Wards, minors as well as for the deceased estates.

306. That would be *bona fide* business?—Yes.

307. You say that 'undertakings of this nature would generally be financed by means of debenture loans which are outside the scope of the Imperial Bank and which are not sufficiently liquid for other banks'. Do I understand that the Imperial Bank does not consider debentures as such as good security? Is that your experience? I do not mean buying or holding debentures, but only advances on debentures?—Generally all banks discourage advances against debentures.

308. In Bombay or everywhere?—We are talking purely of Bombay.

309. Questions have been asked and answered about cash credits. Is it not a fact that the cash credit system introduced by the banks is largely replaced by Bills?—I do not think so.

310. Have you noticed or felt that since the cash credit system has been very largely expanded in this country by the banks, the bills have begun to become fewer and fewer?—They may have fallen off; it is obvious that the cash credit is more popular.

311. That is the reason why the bills have become unpopular.

312. *Chairman*: The Chamber admit that when they say that "there is undoubtedly a dearth of bills in India and the absence of a regular discount market may have something to do with this, also the system of cash credits".

313. *Mr. Jadu Nath Roy*: You said that there was no difference between an investment trust company and an industrial bank as in both cases money is to come out from the share-holders. If the public are not coming forward to subscribe to the capital of the industrial bank for financing indigenous industry, would you think it advisable that Government should guarantee the interest on the debentures of the bank as suggested by some witness?—It would be of great assistance to the Institution.

314. In regard to the training of Indians, some have suggested that there should be a license with a condition that facilities should be given for practical training?—That has already been answered. We said that practical training followed theoretical training or went simultaneously with it.

315. At present they do not get any facilities except from the Imperial Bank, but if other Exchange Banks also gave facilities, that would be a great help to Indians?

316. *Chairman*: It was in answer to a question of mine that the witness made the statement that the Exchange Banks should also start schemes for the training of Indians similar to those started by the Imperial Bank, and he added that as a matter of fact Exchange Banks have already started some similar schemes.—There is no scheme, Sir. I knew of one Indian in course of training in an Exchange Bank in London; I did not say a scheme was formulated.

317. You said that some people were being trained?—Yes, but whether they conform to the conditions of service or not is another matter; that has not been considered.

318. Mr. Roy wants to put it to you whether in the licenses you would specifically mention the condition that they must train Indian youths in banking to give them a chance for future employment. At the same time in answer to a question the Chamber state that "the cost of management of banks must remain fairly high until such time as the possibility of dispensing with the present large proportion of European trained and experienced officers is arrived at by the evolution of trained Indians of sufficient experience to warrant the confidence of the public". In answer to supplementaries you said that you were in favour of Exchange Banks following the lines of the Imperial Bank?—Something to that effect, yes.

319. But you would not go so far as to accept Mr. Roy's proposition that it should be a condition inserted in the license?—I think it is unnecessary.

320. *Mr. Jamal Mohammad*: You speak of certain disadvantages in the practice of financing floating capital by means of deposits. Would you suggest in what way we can meet the evils inherent?—A distinct disadvantage lies in the fact that in bad times deposits are liable to be withdrawn from good and bad concerns.

321. But is there no way by which you can remedy it?—The remedy can only be by replacing the deposits from some concerns who are not so liable to panic.

Sir Leslie Hudson: There is another remedy which was brought out by our friend, which was that the deposits should be made in the first place with banks and that industrial concerns should obtain loans from banks.

Chairman: What Sir Leslie Hudson says practically amounts to the same thing, *viz.*, that deposits should go into banks and these concerns could take the money from the banks.

322. *Mr. Jamal Mohammad*: Banks do not finance block capital out of deposits received for short term?—I do not think that deposits by depositors in industry are secured by block; they are not secured either by specific mortgage.

323. You say that the supply of capital for industrial development in India is somewhat limited. Can you suggest means by which this can be made more adequate?—We have pointed out the defects and the remedies.

Chairman: "Until the capital market can be fed by Investment Trust Companies or Issue Houses the difficulty of mobilizing the capital that is available for industrial development will remain". That is the solution offered by the Chamber.

Mr. Jamal Mohammad: It is not a remedy.

Chairman: But that is all that the Chamber can say. They speak of the danger still existing of financing long-term investments by means of short-term money.

324. *Mr. Jamal Mohammad*: Is that the remedy you suggest?—That is so.

325. Does the remark that banks have financed industries as far as the security offered permits, apply to the Tanning Industry?—I do not think that the Chamber are in a position to discuss the Tanning industry.

Chairman: Does that apply to all industries that the Chamber is aware of?—As far as we know, yes.

Mr. Jamal Mohammad: To all industries manned by Europeans and Indians?—Absolutely without any difference at all.

326. In the same answer the Chamber state that they are not in favour of any special measures for providing finance for Industrial development by means of Trade Banks and attempts in this direction such as the Tata Industrial Bank in the past have shown that the economic development of the country is not yet ripe for this type of specialized Bank. Supposing that the Tata Industrial Bank was found not to have been well conducted, do you still consider that the establishment of such a bank for the promotion of Industries in India would be unnecessary and undesirable?—It is a hypothetical question.

327. The Tata Industrial Bank did not encourage industrial business and supposing it was found that they could not be taken as an instance of an industrial bank, would you still consider that there is no necessity for an industrial bank?

Chairman: The Chamber are not strictly against the starting of industrial banks. The witness modified his statement to some extent.

328. *Mr. Jamal Mohammad*: You say you are not in favour of the Bank rate being controlled by the Government of India. Why should you think so? When currency and fiscal policy are in the hands of Government, why should you be up against the bank rate alone being in the hands of Government?

Chairman: In answer to various questions, the witness admitted that there might be occasions for Government interference from international considerations.

329. *Mr. Jamal Mohammad*: My point is when currency and fiscal policy are in the hands of Government, why should the Chamber particularly object to the Bank rate alone being controlled by Government?

Chairman: We are concerned more with banking now than with other political questions?—We gave a very full reply to that question and I do not think that the Chamber are in a position to add to it.

330. *Sir Purshotamdas Thakurdas*: The object of the Reserve Bank is to combine control of both currency and credit. If that be the object of the Reserve Bank, should not the Reserve Bank have control of cash reserves? If so, how do you justify your recommendation, namely, that the Reserve Bank should deal with securities instead of cash?—We presume that the Reserve Bank will have a capital as well.

331. The Reserve Bank has to belong either to shareholders or to the State. If the Reserve Bank scheme is that it should be a shareholders' bank, then, I wish to ask you as a practical banker whether you would like to have a capital of 20 crores instead of cash deposits from member banks?—I presume that the capital of the bank will be sufficient.

332. The other scheme of drawing cash instead of Government securities from member banks, even though the percentage be small, would make the task of the Reserve Bank easy. Otherwise the Reserve Bank has to make up for it. Is'nt it?

(*Mr. Buckley*): By the note issue.

333. You are counting on the note issue to make all the profits. But the note issue has to be backed with gold.

Chairman: I thought that the witness had admitted that at least a certain amount of the Bank's deposit should be in cash. (To the Vice Chairman) All that you suggest is that it should be in cash, though it might be very small.

334. *Sir Purshotamdas Thakurdas*: Now regarding the licensing of non-Indian Banks, your Chamber favours licensing only of banks which may be started in India hereafter?—That was our intention.

335. Which means that the banks which are already established are to have an advantage?—We presume so.

336. Why do you want any advantage for the banks which are already established?—We do not want any advantage for them. We suggest that there should be no disadvantage to them.

337. If you agree to licensing being applicable to all non-Indian banks, whether they were established 50 years ago or whether they are going to be started 10 years later, there would be no disadvantage to any. I understood you to say that licensing should be restricted to the banks

that might be started hereafter. Why do you presume that there would be a disadvantage if licensing were made applicable to all? Have you in your mind any restrictions in the form of licensing which may be a disadvantage to the new concerns?—We do not wish to punish anybody. The licensing would automatically mean registration. We presume that the banks already established have been here long enough to command public confidence and therefore they should be above the necessity of registering themselves.

338. Why should they not be subject to a uniform system of registration in common with new banks?—If a license does not amount to restriction, I do not think there can be any great difficulty. In some countries it means very restricted control.

339. But as the question is put, you would not press that existing banks should be exempted from licensing?—As it is, we are averse to any restrictions that should be placed on the banks by any form of licensing or registration. Our recommendation is that there should be no restriction.

340. In reply to Lala Harkishan Lal's question, I understood you to say that the existing exchange banks enjoy a sort of monopoly and that you did not object to Indian banks competing with them. I would like you to know what happened with regard to the Tata Industrial Bank. That Bank, for the purpose of its business in London, made an application to the Secretary of State for India, to be put on the approved list for Council Bills but the latter refused to put them on the approved list with the result that the Tata Industrial Bank had to experience great difficulty re their exchange business. Now take it from me that that was a fact. Would you consider it fair treatment to an Indian bank? Would you call it fair competition?—In the absence of satisfactory explanation, I would admit that it was not fair.

341. If that sort of thing did exist, you would call that a serious handicap?—Subject to the reservation above, yes.

342. You admit that it is not so much a question of introducing in India banking in the ordinary sense of the word but it is a question of substituting western methods of banking for the indigenous methods of banking?—That is the idea.

343. Do you think that the western banking system, as it is pursued at present, is as economical for the requirements of India as the indigenous banking system?—The indigenous banker is the link between the cultivator and the market.

344. You therefore think that while western banking is more suitable for ports and cities, for urban and rural areas the banker who serves the major portion of India at the moment is the indigenous banker?—Yes, but only for the present.

345. You therefore think that what is required in order to put the Indian banking system on a proper level is to see what can be done for that banker of the masses of India—for the improvement of his methods and for the improvement of his facilities?—The western system can be extended within a reasonable period of time.

346. *Ch. Mukhtar Singh*: In your reply to a question put by the Chairman, you said that it was not the concern of the bank to gamble in industry. Do I presume from this that you consider that the industry should first be started and not till it is actually able to show profits should the bank come to finance it?—I said before that we feel that the necessary

capital for an industry should be put up by the promoters and not supplied by the bank.

347. Is it not the practice on the Continent that the man who is ready with an industrial scheme approaches a banking concern for financial assistance?—We have said we are not cognisant of the banking system on the Continent.

348. If that be the system, would you like it?—Great risk has to be taken. Is it safe for the bank to take that risk?

349. If the bank exists for the development of the country, it ought to finance the country's industries.

Chairman: (To Ch. Mukhtar Singh)—They have already said that they prefer to adhere to the English conservative system of banking, and that really is the answer to your question. You are now trying to find out something from them in a matter on which they have no knowledge.

350. *Ch. Mukhtar Singh*: Can you enlighten us as to what is the stamp duty on debentures in England?—There is some duty, but we do not know how much.

351. You said with regard to restrictions on foreign banks in England that they were bound to employ a certain percentage of officers in Great Britain?—We have gone very fully into that aspect of the question. If a foreign bank were started in England, they had to employ a certain number of Britishers. The Board of Trade insist on it because of the excessive unemployment in England at the moment.

352. Are banks included in 'firms'?—I think so.

353. Are you in favour of a similar thing being followed in India?—I do not suggest that. But there are a number of Indian clerks working in every one of the foreign banks established in this country.

354. So you are perfectly satisfied that there are a sufficient number of Indian clerks working in those banks?—The Board of Trade standard in England would be more than satisfied by the number of Indian clerks employed in foreign banks in India.

355. Is there no rule which lays down the number of British officers to be employed in those banks?—Have we not sufficiently replied to this, Sir?

Chairman: I think you have. My information is that practically everybody in England is considered to be a bank employee. Even a civil servant is called a clerk.

356. *Ch. Mukhtar Singh*: Would you agree to a restriction being included in the license?

Chairman: If the foreign banks already employ a large Indian staff, what is the objection to its incorporation in the license?—We agree with the Chairman.

357. *Ch. Mukhtar Singh*: Are you aware that there is a restriction in America that if a foreign bank is started there, it cannot receive deposits from Americans? Would you like to have the same sort of restriction placed in India?—Would that be of advantage here?

358. Supposing it is considered that all these deposits will go to the Indian indigenous banks, they will no doubt be profitable to the country?—And yet you will be depriving the public of safe institutions for deposit of their funds.

359. But if it is considered beneficial you would agree to such a restriction being put in the license?—We do not see how it can be beneficial.

360. Are there any countries where no restrictions are placed on foreign banks?—There are no restrictions in England barring the Board of Trade regulations. In Siam there is no restriction.

361. I presume you have suggested that if the work of banking be entrusted to Indians, then the banking business would be cheaper; rates would go down lower than if the management were left in European hands?—We adhere to our answer.

362. Do you agree that if a large number of Indian banks with Indian officers were started, the business rates would be cheaper?—Certainly that would mean cheaper over-head expenses.

363. If that is so, would you give us any idea as to how to develop Indian banking?—The Institute of bankers might be in a position to help.

364. You say you are against the formation of industrial banks. Do you consider the existing joint stock banks are quite sufficient to finance industries that may be started in this country?—We don't say joint stock banks, but only "the existing banks".

365. Do you not consider that for an ordinary joint stock bank it is impossible to assess a proper value of the assets of an industrial concern? If that be the case, how do you consider it to be safe to allow the financing of industries by joint stock banks alone?—I don't see any difficulty about that. It is possible to assess the proper value.

366. Will not the financing of an industrial concern depend on whether it is a profitable concern or not?—Not necessarily profitable, but solvent.

367. How do you judge the solvency of the concern?—It is not very difficult to find that out.

368. I simply suggest whether it will not be necessary for the bank to enquire whether it is a profitable concern or not?—It is very necessary to know that.

369. Then how will the bank be able to form an opinion on the point?—The banks can employ technical men for that purpose. It won't be very costly.

370. *Chairman*: Mr. Mukhtar Singh's point seems to be this: whether any of you gentlemen have been on the board of an industrial concern and if so have you had any difficulty practical or otherwise in getting an advance from a bank for want of technical advice, etc.?—The answer to the first part of the question is 'yes' and the second 'No'.

371. *Mr. Mukhtar Singh*: Are you aware that recently Japan has restricted entirely the starting of business by new foreign banks?—We are not aware.

372. Is any gradation or standardisation done at the Port Trust Warehouses?—Yes.

373. Are the receipts of these port trust warehouses negotiable?—Yes, they are transferable and are accepted as temporary security pending the storage of goods.

374. Is it, or is it not a fact that the Indian produce has not yet received proper value in the foreign market on account of want of gradation and on account of adulteration, the foreign market has got a very bad opinion about Indian produce?—That is so, I should say, almost invariably.

375. Has it not been made penal in different countries, especially Denmark and the United States of America that an article will not leave its Port before it is properly inspected and certified as to the different grades or standards introduced by these countries?—This is undoubtedly a fact in regard to imports into the United States of America where you have to comply with the customs regulations. In regard to Denmark, you are probably referring to the export of dairy produce?

376. Yes, and if they find that the quality is below the standard they are not allowed to be exported?—We are not aware of that. There is in force in Great Britain at present, a system of grading of agricultural and horticultural produce.

377. How do the foreign exchange banks in this country pay income-tax in this country? They don't prepare a separate balance sheet for their business in India?—Particulars which satisfy the Income-tax authorities are given to them on the basis of which they are charged income-tax.

378. My point is, that in Germany and other countries they are charged income-tax proportionately on the profits they make and the business they do in the country. So far as I could see that is the basis on which they are charged income-tax.

Mr. Buckley: Do you mean to say that they are charged income-tax on the turn-over?—

Mr. Mukhtar Singh: Yes.

Mr. Buckley: Certainly not on the turn-over.

Mr. Mukhtar Singh: Then on what basis is the income-tax calculated?

Mr. Buckley: It is calculated on the profits alone in India. Profits certified by the Board of Directors of the Exchange Banks in London are given to the income-tax authorities, on the basis of which the income-tax and super-tax are collected.

379. *Mr. Mukhtar Singh*: Don't you consider that by the opening of new branches of the Imperial Bank in places where there has already been an indigenous joint stock bank or banks, the latter have been hit hard?—I think it is difficult for us to answer that question.

380. *Mr. Devadhar*: In answer to Mr. Khaitan you were good enough to say that European traders themselves look after the internal trade as well with the object of eliminating the middlemen. You are aware that the Co-operative societies are also doing almost the same work. I should like to have the views of your Chamber whether you are in favour of the co-operative movement doing this work?—We are always in favour of the co-operative movement.

381. And you think they are practically doing the same work by reaching the small man in the villages?—The co-operative societies in this country have not yet reached the scale which is necessary for its progress.

382. You are in favour of the rapid expansion of the movement?—Yes.

383. In connection with godowns and warehouses, don't you think that if small godowns are erected in the villages for the benefit of the small farmers and producers, the latter will stand to gain?—Your point is not quite clear. Do you ask for Government subsidy?

384. I am not talking of big warehouses at the ports. I am only suggesting the formation of small warehouses in the countryside supported

by small Government loans such as those advanced to the co-operative movement?—We are in favour of this kind of small warehousing scheme up-country, provided you can overcome the initial difficulty of cost and that is the only objection we have.

385. Just as at present with the help of Government and also a large number of the public interested in co-operative societies, these societies are started and are able to find their capital requirements. If the same principles of co-operation were to be followed in regard to small traders and some kind of a bank is formed with the assistance of Government similar to the assistance rendered to the Co-operative societies in the initial stages, the bank would be able to finance the small requirements of petty industrialists and others. Don't you approve of this suggestion?—Then do you advocate the elimination of the indigenous banker who is doing that work now?

386. Personally, I am not against the indigenous banker at all, but I am only suggesting a better and systematised method of helping the village industries. I would like to know if the commercial community would support that proposition?—I think we should be in favour of any justifiable enterprise which will follow the example of self help.

387. We are all agreed that the indigenous banker has rendered very great services to the country but there is still some room for improvement in his method and ways. What would be the attitude of the business-world with regard to the expansion of the co-operative movement taking the place of indigenous bankers?—We are in favour of the suggestion.

388. *Mr. Ramadas Pantulu*: With regard to banking education you were good enough to make some suggestion. Are you in favour of including co-operative banking as one of the subjects of study in the curricula of banking education?—The Institute of Bankers may be able to expand the curriculum as the exigencies of the situation may require.

389. Do you favour the inclusion of co-operative banking in the curricula of instruction?—It is worth while suggesting that to the Institute of Bankers.

390. You say that "greater co-operation between the financial centres and rural areas is necessary". If I suggest to you the linking up of the system of co-operative banking with the joint stock banks of the country, will you agree?—This is very difficult to answer. We cannot consider such a general point. Your question does not arise from our answer.

Chairman: You have stated here that greater co-operation between financial centres and rural areas is necessary. Mr. Ramadas Pantulu's point is, supposing that co-operation might be established by the linking up of co-operative banks with joint stock banks, would you agree to that proposition?—We see no objection to that at all.

391. *Mr. Ramadas Pantulu*: You say that "if in the future agricultural produce can be financed by bills drawn against commodities either whilst in the field or in transit a bill market might come into being. The smaller industries might be financed in the same way". Do you agree to co-operative banks doing this business? They have plenty of funds at their disposal at present?—It is quite a legitimate banking business.—I don't see any reason why any restrictions should be placed on co-operative banks doing this business.

392. I am obliged to you for your views. We have been recently circularised by the Registrar that this business does not form part of the

work of co-operative banks, and hence it was I requested you to give us the views of your Chamber.

Regarding debentures of land mortgage banks, at present their interest is guaranteed by Government. In Madras they are not yet considered as trustee securities. If I suggest that joint stock bank and the Imperial Bank may be made to lend money on these debentures, they will be a considerable help in the financing of long term loans. Will you agree to this suggestion?—I don't see any objection to the suggestion.

393. Supposing I request this Committee to recommend that the debenture issues of the land mortgage banks should be made negotiable and marketable, would you think that I will be correct in doing so?—I think the Committee might consider such a recommendation.

SECOND DAY.

Monday, the 18th August 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, Kt., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Dr. L. K. HYDER.
Mr. MANU SUBEDAR.
Mr. V. RAMADAS PANTULU.
Mr. W. LAMOND.
Lala HARKISHAN LAL, Bar.-at-Law.
Mr. R. W. BUCKLEY.
Mr. JADU NATH ROY.
Mr. G. K. DEVDHAR, C.I.E.
Chowdhri MUKHTAR SINGH.
Mr. JAMAL MOHAMMED.

Mr. V. K. ARAVAMUDHA AYANGAR, C.I.E. (*Secretary*).
Mr. R. P. MASANI, (*Joint Secretary*).

Mr. S. N. Pochkhanawala, Managing Director of the Central Bank of India, was examined.

394. *Chairman.*—You give five reasons why India has so far been unable to compete successfully in industrial pursuits. Want of sufficient capital is one of the reasons. Will you kindly tell the Committee the relative importance of this item to the other items?—Capital is the most important among the five items. If there is sufficient capital the other handicaps can be overcome. Skilled labour could be imported.

395. Two of the items mentioned are want of technical knowledge and want of practical experience. You as an experienced banker, I daresay, know that one of the fundamental bases of credit is confidence, and confidence depends largely on the business ability of the person who seeks that confidence. Therefore even if capital were forthcoming, while that business ability, that is the practical experience and technical knowledge were not forthcoming, would such institutions flourish?—The skilled labour and technical knowledge could be imported. We could have experienced men from different parts of the world.

396. You want also to import practical experience?—Yes.

397. According to your ideas, the actual industry would be run by imported people. Only the capital would be subscribed in India and would be controlled in a way by the shareholders and their directors?—Yes, otherwise no new industry could be established.

398. Later on, you say that "attempts have been made from time to time by enthusiastic pioneers, etc., but in few cases have the results been encouraging". Now how would you reconcile that statement with the statement you have just made. Why did not these enterprising pioneers import outside help in regard to practical experience and technical knowledge?—Because foreign goods were imported and sold and no margin of profit was kept in the industry. The industry may be floated very successfully, but if it leaves no margin against competition of foreign goods, necessarily it has to suffer.

399. Then obviously sufficient capital would not be the main criterion? —It will be the main criterion to start with, and the after-result would mostly depend upon circumstances.

400. But how would capital be forthcoming if the persons who are required to produce it have no confidence in the ability of the people running the business to provide them with adequate returns?—So far, most of the industries started in India have been by persons having no technical knowledge. For instance, the iron industry, the hydro-electric industry: these have been started only through confidence in the people who have started them. They then try to put the company or the industry in the best possible way by importing foreign labour and foreign technical experts.

401. Therefore from what you say it follows that at the outset in certain cases there has been no lack of capital.—Yes.

402. And because the promoters of the concern did not import outside practical experience or outside technical knowledge, therefore the concern failed?—Some of them failed for these reasons; some of them failed because of the reasons which I have given just now, namely, no margin of profits being left owing to foreign competition.

403. That being so, would it be correct to say that want of sufficient capital was the main cause of these failures? You give five reasons and my initial question was what was the relative importance of the first item to the other items. To the best of my recollection you considered capital to be the most important item. Your statements later on indicate that in certain cases there was initially no lack of capital, but there were two other factors; in some cases the people who promoted the concern did not bring in outside practical experience and outside technical knowledge which you think is essential; therefore they failed. In some other cases, there was no large margin of profit left; therefore they failed also. That being so, don't you think it is necessary for you now to modify the first statement you made, *viz.*, that you consider want of sufficient capital to be the principal reason for the failure of these concerns?—I still stick to my statement.

404. It has been suggested by one witness that there is a lack of adequate credit facilities for the finance of the iron and steel industry and the hydro-electric industry and that, for example, for this reason new companies for the manufacture of steel have not been started notwithstanding the fact that the cost of producing pig iron is cheaper in India than anywhere else. Have you any intimate experience of these industries to say whether in your opinion these industries are actually suffering from lack of adequate finance?—I have no intimate experience of these two industries. But as far as the iron industry is concerned, there are three iron companies which have not been doing so well; besides this, I do not know much about them.

405. You do not know anything about the hydro-electric industry?—No.

406. What are, in your opinion, the reasons for the failures of the pioneer industries, to which you refer in the first paragraph of your memorandum? You have already answered this to some extent. Do you want to supplement your answer?—I say that if there is sufficient capital a company is able to stand the losses for a certain time; if there is not sufficient capital

it cannot stand competition and every industry has to meet with losses in the beginning. I think the iron industry has been able to pull on only because there has been sufficient capital.

407. Is it your point then that in the case of these pioneer industries sufficient capital was not subscribed at the outset to enable them to tide over the period during which adequate returns could not be produced?—Yes.

408. Do you think that at the time these pioneer industries were floated they could not have secured adequate amount of capital to tide over that initial period?—It may be want of experience of the persons who have established those industries in calculating the required capital; then the change of circumstances, the change of times, might have gone against them.

409. Does the inadequacy of capital facilities to which you refer relate to the block expenditure or to current requirements?—To both; in some cases to block expenditure and in some to current requirements.

410. Therefore your point is that there is a possibility that the pioneers of heese concerns made miscalculations about the capital that they might require for both purposes at the initial stages until they were in a position to earn adequate profits?—Quite so.

411. You have said later on that the Imperial, foreign exchange and the indigenous banks have supported and financed the textile and jute industries. Is this support in your opinion sufficient to meet all their long and short term requirements?—Yes.

412. Have you in this connection noticed any distinction in the attitude of the Imperial Bank towards the textile and jute industries?—No.

413. You say that the textile industry of Bombay has recently been suffering from inadequate financial support from banks. Are you referring to finance for working expenses?—Yes at present.

414. Can you also tell the Committee what the reason is for the want of adequate financial support from banks to which you refer?—The chief reason is that the industry for the last many years has been in a very bad condition. It is not a profitable industry at present and naturally from year to year the companies have sustained losses which have reduced their capital. The banks were advancing moneys to the mills on their capital and on their sound position. Year after year the capital has been reduced as there have been losses and naturally the security of the banks has gone down and so they are reluctant to make advances to some of the textile industries.

415. It has been suggested by some witnesses that mills in Bombay which obtain loans from banks on the security of goods are required in several cases to give additional guarantee by the Managing Agents although sufficient margin is required to be kept by the borrowers in regard to the value of the goods hypothecated. Can you tell the Committee what are the reasons for this practice?—This has been a practice from the beginning. When the textile companies require loans, the security of the company and the agents is always taken into account, although it is more a question of practice than anything else.

416. Have you any information about the basis of that practice?—No, it has been going on for many years.

417. You say that the smaller industries do not get any support from banks, as the latter have no technical knowledge of the industries and therefore do not consider it safe to invest their funds in the financing of such industries. Is this consideration peculiar only to small industries? Are the banks, in your opinion, provided with sufficient technical knowledge in regard to major industries?—With reference to the major industries, of course there is no technical knowledge on the part of the bankers, but where sufficient data are given through balance sheets, reports, etc., the bankers can form some opinion about the industries. The smaller industries are generally proprietary concerns and banks can have no knowledge as to their technical or financial position.

418. That brings me to another point. There are really two aspects of the question. Firstly, the initial stage when it is not possible for the company, whether it is dealing with a large industry or a small industry, to produce a balance sheet. At that stage, how will the consideration to which you refer apply in the case of the larger industry?—In the initial stage, whether it is a large industry or a small industry, I do not think banks do make advances.

419. Do you think it would be right for a commercial bank to make any advance at that stage?—No, it is not right and so most of the banks do not make any advance in the initial stage to an industry, that is when it is under construction.

420. Would not a proprietary concern running one of the smaller industries be required to produce a balance sheet?—Balance sheets are never issued by proprietary concerns.

421. So long as that state of affairs lasted, the concern would not command the confidence of the public; can it be remedied in any way?—It cannot be remedied, unless the persons who are engaged in these smaller industries establish themselves into companies based on joint stock principles; then they could expect to get financial help from banks or from the public.

422. That state of affairs would not be remedied by the establishment of industrial banks, pure and simple?—I agree with you, but then it will automatically follow. If industrial banks are established, such proprietary concerns would like to form themselves either into joint stock companies or to show their results or activities in such a way as to get help from the industrial banks.

423. Nothing stands in the way of their liking that arrangement at the present moment?—Then they will think that there is some bank which will necessarily help them, if they could satisfy that bank.

424. You said that in the case of the larger industries, when they are in the stage of working, if they produced a balance sheet which the lending bank considered to be satisfactory, there would be no dearth of loan from that bank?—Yes.

425. The same consideration would surely apply to a smaller industry?—Yes, but at present the smaller industries are not under those conditions; they are all proprietary concerns and they do not show what they have been doing.

426. That is my precise point; therefore the difficulty arises more from the particular way in which these proprietary concerns manage their business than from any disinclination on the part of existing banks to help them.—That is so.

427. Does your scheme of capitalisation of your proposed industrial bank contemplate only share capital, or do you intend that the bank should have the power to raise debentures also?—It cannot be only share capital; there should also be debenture capital.

428. The first question is, do you agree there should be debentures?—Yes.

429. That being so, would you prescribe any limitation on the issue of debentures in relation to the paid up share capital?—No.

430. You do not want any share capital at the outset, but simply want debentures. Is that your intention?—The capital is not ordinary shares, but preference shares or bonds of 5½ or 6 per cent. guaranteed by Government.

431. You recognise that there must be some shares, otherwise, it would not be a shareholders' bank. Assuming your idea is that these should be preference shares, still the question arises whether there should be any limitation on the amount of debentures to be issued in relation to the paid up share capital?—It would all depend on the business of the bank, which may gradually increase.

432. I am quite prepared to admit that the amount of debentures would increase with the growth of the business of the bank, but my point is this: would you at any stage impose any limitation on the amount of that debenture capital in relation to the paid up share capital?—It should not be in excess of the capital.

433. Therefore you would impose a limitation that the debenture capital should not be in excess of the share capital?—As I said, it would all depend upon circumstances. If there is good secured business with an industrial bank, even if the debenture capital is more than the share capital, it would not matter much as there would be sufficient assets with the company.

434. Your point then is that it is not necessary to have any limitation on the debenture capital in relation to the share capital?—Yes.

435. You have suggested that Government should guarantee interest at a prescribed rate on the capital of the bank. Would it not be more proper that the Government guarantee of interest should apply to the debentures that might be issued by the bank and not to the initial ordinary capital?—Then it will be very difficult to get the capital, because the past experience of the public is such that I do not think that for an industrial bank capital would be forthcoming.

436. Therefore your point is that Government should guarantee interest on the preference shares as well as interest on the debentures?—The interest on the debentures may not be guaranteed by Government, as there would be tangible assets in the hands of the company; but in the initial stage in order to induce capital for the industrial bank, that provision is necessary.

437. You want guarantee of interest on the preference shares with which the bank is to start its business, but not on the debentures which will be issued thereafter, according to you, on adequate securities?—Yes.

438. Do you think it would be necessary to adopt other measures for making these debentures attractive to the general public, for example, by making them trustee securities or would you like that concession to be given to preference shares?—I do not think that at the present stage these securities should be taken as trustee securities, because we would have to watch the results.

439. Therefore at the present moment you do not want any other concession from Government excepting guarantee of interest on the preference shares?—Yes.

440. What do you exactly mean by saying that the "bank should do no other business except financing industries in their primary stages and till such time as such concerns can acquire for themselves credit sufficient enough to induce commercial banks of the country to grant them clean or secured facilities?" Do you think that it will be either possible or safe for the commercial banks to provide the industries with finance for extension schemes beyond the initial stage?—If they have passed the initial stage and if the companies have got sufficient assets to be placed with the other banks (*e.g.*, stock, etc.), then the other banks will be able to finance these concerns. There will no longer be any necessity for the industrial bank to finance them.

441. But surely the commercial banks can only give them short term credit?—Yes, but against stocks the short term credit will be quite good.

442. For purposes of extension schemes?—Yes, even for extension schemes. It will all depend upon the security that the company is able to offer. Suppose a company has already spent 20 or 30 lakhs on the concern and if they want for extension a sum of 2, 3 or 5 lakhs, they will be able to get accommodation from other banks, as there is sufficient security to pledge with the banks. If the concern is doing profitable business and if the balance sheets give a good idea of the business itself, the commercial banks would be willing to help.

443. Let me pursue this matter a little further. An industrial concern starts its business according to your ideas and it has to go to an industrial bank for initial assistance. Therefore apparently this industrial concern must offer the industrial bank adequate security for a loan. It may have for example to hypothecate with the industrial bank the bulk of its property. Then the time will come for extensions, probably after 3 or 5 years. Suppose the concern up to then has not been able to fully repay the loan to the industrial bank and therefore the bulk of its assets are hypothecated to the industrial bank. Then the concern wants more capital for its extensions. Take it to be a mill; it probably thinks if it is to put up another 100 looms, its business would improve and the overhead charges would be reduced. Do you seriously contemplate that at that stage it would go to a commercial bank and that the commercial bank would be in a position to find money for it, even if its business had been flourishing in the preceding 3 or 4 years?—It will all depend upon individual cases. Suppose a company with a capital of its own, say 20 lakhs, has borrowed from the industrial bank 5 or 6 lakhs by the hypothecation of its assets and then if it wants 2 or 3 lakhs more, it is just possible that it might get the amount though it has already borrowed from the industrial bank. There is generally no hard and fast rule.

444. That brings me to my point. It may be possible or it may not be possible. Therefore when you say that the industrial bank should do no other business except financing of industries in their primary stages, you probably go too far.—Yes. The Industrial Bank may have to finance industries after the primary stages sometimes.

445. You suggest that the industrial bank should not be allowed to receive deposits for a shorter term than three years. It has been suggested that such restriction would hamper the work of the industrial bank and that short term deposits for a term less than three years should also be allowed with a view to enable the bank to finance the floating expenses of the industrial undertakings to which they have made long term advances. Have you anything to say in regard to this suggestion?—The period of three years is placed for the reason that if it receives yearly deposits, it will necessarily compete with the other indigenous banks.

446. The competition may be stopped, but the industrial bank may fail to serve its purpose?—I do not think so, because the industrial bank will have to depend more on its own capital and debentures; as they have got the remedy of issuing debentures, they will be able to get money by means of debentures.

447. They may or they may not?—Yes.

448. You want to avoid competition between various classes of banks?—Yes.

449. You say that applications for loans to the industrial banking institutions should be entertained only after 50 per cent. of the required capital of the company is subscribed and paid up by the public. Would you kindly explain to the Committee what the object underlying this restriction is?—It is only for the safety of the industrial bank entertaining such a proposal. It would mean that for the industrial bank that much would be the margin for the money they will be advancing to such a concern.

450. You began by saying that the fundamental reason why industries cannot be started in India is want of capital and now you want to put in a restriction that unless 50 per cent. of the capital is actually secured, your industrial bank must not give it any assistance?—Because the industries are not to be started at the risk of the industrial bank. The public or the promoters have to take certain risk, and unless there is a certain margin sufficient for any probable loss with the industrial bank, it would not be wise or safe to advance money to such industries.

451. Therefore you are not in favour of providing very facile credit or capital for these pioneer institutions?—We cannot call them pioneer institutions from the start. It will all depend upon how they are worked. In the beginning a certain amount of capital is always necessary to safeguard the interests of the lender.

452. You say that when a Reserve Bank is established, the existing banks should be able to meet the financial demands of the industries by the aid of re-discounting facilities afforded by the Reserve Bank. Does this imply that at present, existing banks find it impossible or difficult to secure re-discounting facilities from the Imperial Bank? If so, has your bank ever been refused such facilities? Are you aware of any other bank having been refused such facilities?—In the first place, this re-discounting

business is not at present in practice in India. The Imperial Bank discounts bills of ordinary shroffs or merchants. The Imperial Bank has not, so far as my knowledge goes, refused to re-discount bills of banks, but the practice here is that if a bank goes to re-discount its bills with the Imperial Bank, it would be taken to mean that the bank is in financial trouble. This is the last resort which a bank takes in case it wants any financial assistance from the Imperial Bank. In other parts of the world this re-discounting business is quite a common thing, but here in India any bank which goes to re-discount its bills gets its credit affected and it is for this reason that banks do not go for re-discounting their bills with the Imperial Bank. Another reason is that the Imperial Bank, when re-discounting these bills, does not give any advantage in the rate of interest, but charges the same rate of interest as it charges to an ordinary individual shroff. We tried to create a bill market through the Union Bank of India under our management. We used to supply the traders direct with monies and get their bills re-discounted with the Imperial Bank. They do not give any concession in the rate of discounting, but charge the same rate of interest as they charge an ordinary individual shroff.

453. Is the prejudice in India against asking for the re-discounting of bills which you mentioned a prejudice on the part of the indigenous banker?—Banker as well as the public.

454. Do you think this prejudice will be removed by the establishment of a Reserve Bank?—Yes. Re-discounting of bills with the Reserve Bank will be quite different from the re-discounting of bills with the Imperial Bank. The Reserve Bank will not discount the bills of ordinary merchants, they will discount bills of banks only. Not only that; these banks will try to get some advantage in the rate of interest and will be pleased to get the bills re-discounted in order to get their financial position strengthened.

455. If that is the position, why do not the banks at present at least make an endeavour to have bills taken, say from their outside clients and get them re-discounted by the Imperial Bank?—The difference is this: a bill of the Central Bank is a bill drawn by a merchant, endorsed by a shroff and again endorsed by the Central Bank. It has three parties to whom the Imperial Bank looks to. Unless there is some advantage in the interest, why should the Bank re-discount it with the Imperial Bank? Suppose the Central Bank re-discounts these bills at 6 per cent. from the market. Unless these bills can be re-discounted at 5 per cent. or 4 per cent. there will be no advantage to the bank. But if the Imperial Bank insists on the rate of 6 per cent., *i.e.*, the same rate at which we got it from the market, there will be no advantage to the bank in re-discounting the same.

456. The real difficulty then is the interest rate and not what you first stated, *viz.*, the natural antipathy to a system of re-discounting?—That also exists. If it is known that banks are re-discounting bills for the difference in interest and making a profit over it, then that prejudice will naturally go off.

457. You gave as the reason for the prejudice in the beginning that the indigenous bankers were apprehensive that if they tried to re-discount their bills, their credit in the eyes of the public will suffer. How would that be removed?—If the public know that banks do not re-discount bills because they are in financial trouble, but are doing it in order to make something in interest.

458. *Mr. Lamond*: The representatives of the Bombay Chamber said that there were adequate facilities for the re-discounting of bills in India by the Imperial Bank.

459. *Chairman*: Will not the Reserve Bank limit the paper discounted to such as have a short maturity? If so, will you kindly explain how the existing banks will be able to make long term investments in industries after the creation of a Reserve Bank?—From time to time some bills may be discounted and these be replaced by other bills. I do not think there can be any difficulty in that. Until that time the banks will have to arrange their own finance.

460. But will it be possible for a commercial bank under those conditions to afford this long-term credit?—As explained above it cannot be long term credits. It will be say 12 months or more and will be fluctuating according to the stock.

461. That may meet the requirements of working capital but not for extensions.—That I have already explained. In the initial stage commercial banks will not help any industrial concerns.

462. When a Reserve Bank is established you do not think very large capital will be needed for an industrial bank. I fail to see how the conditions will be altered in that particular respect on the establishment of a Reserve Bank. If you do admit that it requires qualifications, there is an end of the matter?—Yes.

463. If on the establishment of a Reserve Bank the existing banks would in your opinion be able to meet the financial demands of industries, why have you in your scheme of the future banking system of India provided for an Industrial Bank?—That question is also answered by the answer just given.

464. It has been suggested by one Chamber that attempts in the direction of taking special measures for providing finance for industrial development such as the Tata Industrial Bank in the past have shown that the economic development of the country is not yet ripe for such a type of specialised bank. Have you any views on this suggestion?—I prefer not to answer the question.

465. *Sir Purshotamdas Thakurdas*: On what ground?—Because of my connection with the Tata Industrial Bank.

466. Surely you had no connection with the Tata Industrial Bank when it was working?—From what experience I have had of the Tata Industrial Bank after the amalgamation I do not like to express my views. But I do think an Industrial Bank is a necessity as I have already said in the memorandum.

467. *Chairman*: If you had no connection with the Tata Industrial Bank, do you still feel reluctant to say anything on the subject?—Yes.

468. In your scheme for the banking system in India, what sort of co-ordination would you suggest between the industrial bank on the one hand and the proposed Reserve Bank and the commercial banks on the other?—I do not think the industrial bank can have much to do with the Reserve Bank except in the matter of re-discounting of bills, because the industrial bank will not be keeping any current account or any floating deposits, and except any re-discounting of bills I do not see how it can come into any further contact with the Reserve Bank.

469. Are you in favour of a single industrial bank with branches in principal industrial centres or would you prefer an all-India central industrial banking institution with provincial or regional industrial banks with a definite plan of inter-relation and co-ordination adopted?—Personally I think if there are industrial banks in each province of the country, it would be better. They will be able to look to the needs of their own province better than if there is one bank with branches.

470. Something like the apex co-operative bank?—Yes.

471. You have summarised the seven principal defects in the banking system. Will you kindly tell the Committee what remedies you suggest for removing the second defect, *viz.*, inability of indigenous banks to increase their lending power to meet seasonal or unusual demands?—That can only be done by creating a bill market and re-discounting facilities.

472. In your memorandum to the Bombay Committee, you say that the Imperial Bank of India have opened many of their branches at places where there is business just enough for the branches of joint stock banks already in existence. Can you supply the Committee with facts and figures showing the deposits, advances, rates for loans and deposits and profits of any of the branches of your bank affected by the opening of the Imperial Bank branches, both before and after the opening of such branches?—The very fact that Imperial Bank opened its own offices at certain places such as Jharia, Chandausi, etc., and then ultimately had to close them down shows that they opened the branches because there were branches of other banks and seeing no sufficient business, they had to close their branches. The deposits of joint stock banks are never affected because the Imperial Bank's rates of deposits are always lower. So the opening of Imperial Bank branches does not affect the deposit figures of indigenous banks. It is only in lending moneys that there is a competition and the rates are lowered down to a level which takes off the margin of profit.

473. It has been suggested that the opening of these branches of the Imperial Bank of India has been of advantage to the public in that it has brought down the interest rates. What is your view on this suggestion?—This is a wide question. These interest rates have not affected the commercial or business interests of the place to any appreciable extent. For instance, at places which may be cotton centres, it is only the cotton factory owners who may have been affected to a certain extent. I admit that the interest rates have been lowered compared with what they had been previously. It has given no advantage to the commercial community of the place but only to a section of it.

474. Surely it has given an advantage to the larger public?—Not the larger public but only to a small section of the commercial public.

475. You state that at certain places, people who had ginning factories may have gained an advantage in the interest rates. If that is so, would it not follow, generally speaking, that that advantage would probably be passed on to the producer of the cotton?—No. It will simply go to swell the profits of the ginning factories and traders or dealers in cotton.

476. It might be passed on to the traders or dealers in cotton, but it is not likely to be passed on further down?—No.

477. Will that apply to agriculture generally?—Almost generally.

478. *Sir Purshotamdas Thakurdas*: It means that if you finance a cotton middleman at an up-country centre cheaper, then it is not reflected in the

price which the cultivator will get?—Because the cultivator has already got his own price, it does not affect his prices at all.

479. So that whatever your rate of lending may be at these centres, your conclusion is that it does not benefit the producer at all. Even if you charge 12 per cent., the producer will be able to market his crop at the same rate as when you lend at six per cent?—No, not to that extent.

480. To what extent?—The extent will all depend upon the world prices. Supposing if the former rate was 9 or 10 per cent, and if the middleman gets accommodation at 7 per cent. I do not think the producer gets the benefit of this 3 per cent.

481. Your conclusion, therefore, is that to that extent the indigenous banker losses and the producer does not benefit?—Yes. I say that so far as there is a legitimate percentage of profits left—I do not talk of any extraordinary margins in interest—even one per cent. would make a lot of difference to the indigenous banker and the Imperial Bank. One per cent., I do not think will be of much concern to the middleman who has been borrowing money.

482. Is the middleman of a greater standing than the bank?—Owing to daily wide fluctuations in prices of commodities one per cent. per annum interest does not count.

483. Is price fixed by world conditions?—He buys from the cultivator at a price which would in his opinion fetch the market values.

484. If he can have the finance at 5 per cent. would it not be better than 9 per cent?—He may be making 5 or 10 per cent. per day or he may be losing 5 per cent. even by paying such interest. The cultivator will not get the benefit of it.

485. *Chairman*: Even so, is it not your proposition that the price which the cultivator receives will not in any way fluctuate with reference to the rate of interest on the money which the middleman requires for financing his business?—Yes.

486. *Mr. Lamond*: Will not that make the middleman more anxious to buy?—I have in my mind only a difference of 1 per cent. in interest. It is not a difference of 5 or 6 per cent.

487. Would more competition be to the advantage of the agriculturist?—I do not think the cultivator gets any advantage of this 1 per cent.

488. If he gets advantage of cheap finance, it will make him a more anxious buyer?—But the competition will depend on the financial position of the buyers themselves.

489. *Mr. Manu Subedar*: If one middleman gets cheaper finance than another, that man will be able to outbid his rival?—Yes.

490. If there was a different method of financing middlemen so that some middlemen get greater facilities from the banks than other middlemen, then those middlemen would be able to outbid their rivals?—Yes.

491. If the Japanese gave very cheap finance to their clients and they went on the field and the Indian also went on the field and the Indian got his finance at 10 or 12 per cent. and the Japanese at 5 per cent., the Japanese would be able to outbid the Indian; and also either he would make more profit himself or he would give bigger price to the cultivator or there would be split. Some he would get, and some he would give to the cultivator?—Yes.

492. *Chairman*: It has also been suggested that the Imperial Bank of India with its prestige is able to secure the confidence of the public and to stimulate in them the saving habit and that as a result, business is bound to grow which will make it profitable for both the Imperial Bank branch and the other joint stock banks to exist side by side in the locality. Have you anything to say on this suggestion?—As I said, there is so competition for deposits between the Imperial Bank and indigenous banks.

493. You say that the Government policy of giving special concessions to the Imperial Bank to open branches in different parts of the country is against the interests and growth of indigenous joint stock banks in India. Will you kindly tell the Committee what are the special concessions you are referring to?—It is only the Government moneys that they have been making use of without interest.

494. At the same time they do not make any charge to Government for doing that work. In the next place is it your desire that Government money at any particular place should be distributed among all the banks there?—No, because it is not the policy of Government to deposit money with other banks. No Government does it, and we do not advocate it.

495. In your memorandum to the Bombay Committee you say that attempts are being made to divert Indian capital to foreign investments by exchange banks. Can you give the Committee any facts and figures to support this statement?—I have not got facts and figures, but those who are in the commercial line at Bombay or Calcutta know that large amounts have been invested in American and foreign securities.

496. *Dr. Hyder*: By the banks or by the investors?—Investors.

497. Why do they do that?—For better return and for political reasons.

498. Why cannot the exchange banks have their own way to encourage this?—Some of them, *e.g.*, the National City Bank, have been sending out prospectuses every week to the investors just to induce them to make investments in foreign securities.

499. *Dr. Hyder*: It is within your knowledge that the continental rates for fixed deposits are 7 to 8 per cent?—The money does not go for deposit investment. It is for investment in industrial concerns or Government gilt-edged securities.

500. *Mr. Manu Subedar*: Did you have also some Indian money for New Zealand? Various exchange banks have been helping in the question of New Zealand forests?—Yes.

501. *Chairman*: You do not refer to that in your memorandum?—Yes, because it is a very small matter.

502. You admit it may not be so much due to declared intention on the part of the exchange banks as to the intention of the investor himself?—Yes.

503. You complain against the exchange banks doing local business, such as discounting local bills, advancing moneys against properties, etc. If you do not wish Indian capital attracted by the exchange banks to be diverted abroad, is it advisable to place any restrictions on the investment of funds by exchange banks in local business?—My complaint against the exchange banks is only this, that when they, through the facilities they get of cheaper money, lower the rate of interest, they come in the

way of the margin of profits of the indigenous banks. I shall state an example. In Bombay and Calcutta most of the Indian business consists of lending money on shares, say, at 1 per cent. over the bank rate. If the exchange banks do small business at a lower rate, our clients would get dissatisfied. That is how the business of the indigenous banks suffers and their margin of profit is reduced.

504. That brings me back to the point that I raised before. Is not the lowering of the borrowing rate of interest beneficial to the public at large and to the trade of the country?—It is, at the cost of indigenous banks. If the indigenous banks are not to be supported and are not to be encouraged, then the Imperial and exchange banks may be allowed to do as they have been doing. Otherwise, Government should supply them with cheap money as there ought to be a legitimate margin of profit left in borrowing and lending. That is the fundamental principle of every business and the same principle must hold good in indigenous banking.

505. Therefore according to your ideas the interests of public should give way to the interests of the indigenous banks?—No. At present as you know the indigenous banks have to pay higher rates of interest for the deposits that they have to take from the public. Till such time that the rates of interest on deposits are practically the same and the indigenous banks are working on the same lines as exchange banks, the indigenous banks must suffer.

506. That practically brings me back to my point. You are simply looking at the problem from the point of view of indigenous banks, and if I may say so, without due regard to the interests of the general public?—The interests of the general public in the long run are with indigenous banks, as it is throughout the world.

507. You say exchange banks dictate their own terms to Indian merchants dealing with foreign countries. It is, on the other hand, suggested that the competition among the exchange banks is so severe that the rates have been cut down to the advantage of the merchants. Have you any specific instances to support your statement?—That does not refer to the rates at all because they are right in saying that the rates have been cut down to the advantage of merchants. There are certain restrictions, for instance in payment of bills for collection, the merchant is not allowed to tender drafts of any other bank except the bank through which the draft is presented. So he loses the advantage of the rate which he would get from any other bank, say Central Bank. If we were quoting lower rates, our drafts will not be accepted by the exchange banks for bills for collection. About two years ago they passed a resolution that no partial deliveries will be given against bills.

508. In the case of Indian merchants if the exchange banks' terms are onerous, should not there be a tendency on the part of these merchants to divert a considerable portion of their business to an Indian bank like yours which has been doing foreign bills business?—We have not got our own branch in London or in other parts of Europe and we have to pay charges to our agents. And so it sometimes costs them more to do business through us. There is no course left open to the public or to the merchants but to submit to the rulings of the exchange banks.

509. The real answer is that you have not got any branch in London?—Yes.

510. Why have you not started a branch in London, if there is so much money in it?—There is no question of money. In a separate memorandum, I have already stated the difficulties of an Indian bank to start a branch in London.

511. I thought you said it costs something like Rs. 60,000?—It is not only the cost. Without the co-operation of the exchange banks, no Indian bank can do exchange business.

512. In your memorandum to the Bombay Committee, you said that restrictions should be imposed on the borrowing powers of the exchange banks?—The exchange banks have got the first footing in India and necessarily have attracted deposits since many years. As no figures of individual companies are published, I am not in a position to state what amount of deposits the National Bank or the Chartered Bank have got in India. So far as I know, I think the Central Bank has more deposits than any of the individual exchange banks in India. Therefore it cannot be said that there is want of confidence in an Indian bank. It is only other considerations that we have to take into account.

513. Could you say what these other considerations are? Because I think a little while ago you said that these exchange banks pay a lower rate of interest?—Yes, at present the rates of deposits are lower with exchange banks than Indian banks. Indian banks have to pay higher rates because deposits that are already with the exchange banks cannot be diverted to the Indian banks unless a little higher rate is offered. Naturally the tendency of the public is to look to everything from London and Europe with confidence. It is for such reasons that the exchange banks have been able to get about 63 crores of deposits. As I have said in my memorandum you have to take into account different considerations. The idea that the exchange banks get deposits only because people have more confidence in them and have no confidence in Indian banks is not correct.

514. I was trying to find out what were your reasons for saying that restrictions should be imposed on the borrowing powers of the exchange banks?—They should not be allowed to borrow money in India for use outside India.

515. You do not make that point clear. You have simply made a statement in your memorandum that restrictions are to be imposed on the borrowing powers of exchange banks.

516. *Dr. Hyder*: On the investment of deposits?—On the moneys that they take from the public as deposits.

517. *Chairman*: You said that that was not your intention. You wanted restrictions to be imposed on their investing the money which they take from the public in India in business outside India?—Yes, this would naturally follow. If they are prohibited from using Indian money outside India, naturally they will have to borrow less in India than they do now.

518. *Mr. Manu Subedar*: Is it true that they cannot employ all the money which they have in India at present?—I think so.

519. They have to go outside India for finding remunerative employment?—Yes, sometimes.

520. And they borrow in India at cheap rates and employ it outside?—No. It is not a question of rates, as at times it is not profitable to do so.

521. *Mr. Buckley*: From your personal experience, when you were in the service of an exchange bank, you were undoubtedly aware that there are seasons in the year in India when the exchange banks are running very heavy overdrafts in London. In other words they are borrowing money from foreign countries in order to finance foreign trade in India?—That is so.

522. There may be, however, slack seasons when money does accumulate at Home, that money is eventually brought out in the busy season and not only is that money brought out but also very large amounts are borrowed from foreign countries?—Yes.

523. *Chairman*: It really comes to this; you want restrictions to be imposed on the present facilities of the exchange banks for receiving deposits. That is what it comes to?—Yes.

524. Have you any grounds for assuming that if the exchange banks are prohibited from taking deposits to the extent they do now, the deposits will all go to the Indian joint stock banks? Is it not purely a question of confidence?—Part of the excess might go to the Indian joint stock banks. If the exchange banks refuse to take deposits after a certain limit, it must naturally go to the banks or for buying gilt-edged securities.

525. It all depends upon the confidence of the investor?—Yes.

526. That is the prime consideration?—Of course.

527. You say that the interests of exchange banks are protected by the restriction imposed by the Imperial Bank Act on the foreign exchange business of that Bank and you complain that similar steps have not been taken to safeguard the interests of the indigenous banks. It has been suggested that the restrictions on the Imperial Bank in regard to foreign exchange business are due to the fact that the Imperial Bank has been placed in charge of enormous balances of Government and for their safety it is necessary to restrict the activity of the Imperial Bank in a field which involves much risk. Have you anything to say in regard to this point of view?—I do not think the exchange business is in any way more risky than the regular business that the Imperial Bank does. Besides it is more liquid.

528. You therefore like to see that restriction removed even when the Imperial Bank is handling the balances of Government?—Yes.

529. Do not other restrictions regarding the nature of business that the Imperial Bank can transact leave an exclusive field for joint stock banks in regard to advances?—No, because the Imperial Bank so far as they could get two signatures would receive any kind of securities as collateral.

530. But should a joint stock bank also require two signatures with collateral securities?—The joint stock bank requires one signature, but the Imperial Bank, according to their Act, require two signatures. So they would act on that and the other securities will be taken only as collateral.

531. *Mr. Khaitan*: You mean that the Imperial Bank by getting two signatures can transact any kind of business that they like and practically the provisions of the Statute are thereby nullified?—Yes.

532. *Sir Purshotamdas Thakurdas*: Do I understand that is the usual method? That is the exception rather than the rule. Are you dealing with the exception in your inference?—Yes.

533. What percentage of business you think is of that nature?—About ten per cent.

534. That is the highest you can think of?—Yes.

535. Would you base your evidence on such exceptional cases?—Examples that are in my knowledge make me understand that this class of business is being entertained.

536. I am not challenging your information. I am only trying to understand and make clear to the Committee what you are saying?—In the bulk of their business the Imperial Bank keep to their Charter.

537. Your 10 per cent. is what you suppose may be the maximum?—Yes.

538. *Chairman*: You say that there should be independent Reserve Bank offices and that the other banks should place their reserves with the local Reserve Bank branch. Will this not militate against economy of reserves?—There is some misapprehension about these Reserve Bank offices. These branches are only part and parcel of one Reserve Bank. So far as management of individual branches is concerned, they may not be referring matters to the head office, but so far as policy of the reserves is concerned, they are only part and parcel of one.

539. Unfortunately you do not make that clear at the end of the second paragraph of your document. There you say the only difference is that the latter unlike the branches would be invested with note-issue powers?—Yes.

540. You say that one reason for having these independent branches is to give the people of each district an opportunity of subscribing to the debenture capital of the Reserve Bank. Will you kindly tell the Committee what advantage you expect from giving such an opportunity, seeing that no powers of choosing the directorate are to be conferred on such debenture holders in your scheme of directorate?—Here also the branches are not to be established because debentures are to be distributed in the districts. The branches are to be established in order to carry out the business of those provinces and from the branches the debentures may be distributed. It is not for distributing debentures that branches are established.

541. You would qualify that statement to this extent?—Yes.

542. Another of your reasons for having independent branches of the Reserve Bank is to have a board of directors comprising of local members able fully to provide for the requirements of the locality. Can this not be secured even with a single Reserve Bank with a directorate constituted so as to represent the interests of the whole of India instead of only a few selected centres, and by the addition of local advisory boards, if necessary, at places where the Reserve Bank has branches?—I think I have already explained what should be the qualification of the central board, and this qualification you can never expect from an ordinary joint stock bank director. The members of the board are wholetime persons whereas the directors of joint stock companies meet once a week for an hour or so.

543. Your view is that it is not possible to distribute among the principal centres of India people possessing the qualifications which you require for your directors?—A number of these directors will be taken from the different parts of the country, but they should be persons who can devote

their whole time and energy on the work of the Reserve Bank, if they are appointed as regular members. Then only they will not have to look to the ordinary management and ordinary business of the Reserve Bank but to the policy from time to time, frame rules and attend to currency matters and such important questions.

544. Will not directors in wholetime service lose touch with local conditions?—The local board will look to this. The same difficulty will arise if you keep your directorate in Bombay and they will not know the conditions in Calcutta except through letters. The same thing will hold good whether you have the board at Bombay or Calcutta or at Delhi or at Simla. It would make no difference because somehow or other the central board has to be at one place. If it is kept moving, even then it would have to keep in touch with the different parts of the country.

545. It practically comes to this that you apprehend your central board consisting of whole time men will not have that intimate touch with the local conditions as the local board suggested by you would have?—They will be in intimate touch with general conditions. The local board will be in touch with the business at different centres. The directorate that I have suggested will have nothing to do with the local business, except to see that everything is done according to prescribed rules and regulations.

546. *Mr. Manu Subedar*: You mean a board of full time experts?—Yes.

547. You say that Government Treasury work could be greatly simplified by opening sub-branches of the Reserve Bank under the district branch of the Reserve Bank. Seeing that the Imperial Bank has already branches existing at a number of places capable of doing Government Treasury work, will you explain why you want the Reserve Bank to open branches at all places?—If there is a Reserve Bank, the Imperial Bank should work as other banks now work. The Imperial Bank should not be allowed to deal with Government moneys.

548. Do you object to the Imperial Bank functioning as agents of the Reserve Bank transacting government business?—I think giving such work to the Imperial Bank would mean giving a certain amount of status to that Bank.

549. You know that the Imperial Bank does not charge Government the cost of their staff. If the action you suggest is taken, it would mean a certain additional expenditure?—In that case the moneys which lie with the Imperial Bank without any interest will be employed by the Reserve Bank in discounting bills and they will be earning interest. Whatever expenses which are now saved will have been gained by the employment of this money. The Imperial Bank do not pay these expenses out of their own pocket.

550. *Sir Purshotamdas Thakurdas*: In fact, you suggest that the Reserve Bank should do the work free of charge as is now done by the Imperial Bank?—Yes.

551. *Chairman*: You say that the central board of the Reserve Bank should be at Bombay, Delhi or Simla. Do you think Delhi or Simla a suitable place for the headquarters of the central body which has got to be in constant touch with the money market?—I have already explained that the central board—whether it is at Bombay, Calcutta, Delhi or Simla—has

to look after the general policy and the broad currency questions. The local board at each place will be in touch with the market.

552. You say "The central board should remain in touch with the market conditions of the country." How can they remain in touch with the market?—They will be in touch with the market conditions, because they will be getting daily reports from their own branches.

553. My point is that they will not have a direct touch with the market. Is it not?—That is not possible. How can they remain in touch with the market at each and every place? It is impossible.

554. We know that Bombay and Calcutta are really two business centres in India. What do you suggest in that case?—The Board cannot be at both centres. They will have to get a report from either of the two centres.

555. Therefore, do you suggest that whatever touch the central board can maintain will be with the local boards?—Yes.

556. *Sir Purshotamdas Thakurdas*: Your suggestion is that the central board cannot be at both the places?—Yes. I would suggest Bombay.

557. *Chairman*: Why have you suggested Delhi and Simla also with Bombay and Calcutta?—I think for the sake of convenience of Government, naturally for the first few years the directorate would like to be in greater touch with the Finance Member and the Government Department.

558. *Chairman*: Do you mean to say that it should be near the head-quarters of Government?—Yes. Just in the beginning.

559. *Sir Purshotamdas Thakurdas*: Do you call it financial Swaraj or financial self-government?—If the powers are given to the central board as under my scheme, necessarily it will be self-government in finance.

560. *Mr. Manu Subedar*: Do you think that some of the full time experts will be at all centres?—No, at one centre.

561. *Chairman*: You say that a big capital of Rs. 10 crores, of which Rs. 5 crores will be required to start with is necessary in order to enable the Reserve Bank to gain control of the finance market. What is your answer to the critic who says that the debenture capital will be nothing when compared with the other capital in the hands of the Reserve Bank, *viz.*, the balances of Government, the currency reserves, and the bank reserves, and that therefore no big capital is really required for the bank except what is necessary in order to provide against losses during the first few years, before the reserve fund is built up?—I think the least capital required is Rs. 5 crores. That capital is required because in the first place it gives confidence to the depositors and note holders. The public would not willingly entrust its money to, and accept the promises to pay of, a newly established bank that had not sufficient resources behind it. The capital provides a fund on which, in the event of losses on its operations, the Bank may draw towards meeting the claims of its creditors.

562. *Chairman*: From that point of view do you think that Rs. 5 crores will be small?—It is still a small amount looking to the prestige of the Reserve Bank.

563. The critic says that the bank will have several crores from other sources. What do you say to this?—True, but it cannot be called its capital. It will not be Bank's own money. Rs. 5 crores only will be the capital of the Bank.

564. Do you say that capital will be raised by debentures?—Yes.

565. You say that the debenture capital of the bank should be allotted to the highest bidders. Is there not a danger of the capital being, as a result, held by a few capitalists instead of being widely distributed amongst the public?—Capital is to be distributed in different centres. Supposing there is a fear of its being held by capitalists, it can be easily protected by giving a certain figure to each individual applicant. That is to say, no applicant should be granted more than Rs. 10,000 or Rs. 20,000.

566. You like to limit the amount of capital allotted to any individual?—Yes.

567. You suggest that a full report on the operations of the Reserve Bank and its branches should be submitted to the Legislative Assembly and the Council of State. Will you explain more fully the object underlying this suggestion? Is there any precedent for this suggestion in the working of any of the Central Banks of the world?—There are many such instances. If you refer to pages 159, 194, 213, 225, 248 and 285 of the book called "Central Banks" by C. H. Kisch, you will find the precedents there in some form or another. All the Reserve Banks have not the same way of reporting to their Legislative Councils. It will be practically in the same form as the Currency Report now published with perhaps further details about discount policy, etc. The form of the Reserve Bank's annual report to the Senate may be adopted.

568. *Mr. Manu Subedar*: Will the report which you now suggest should be submitted by the Reserve Bank deal with only credit or also with the currency?—With the general policy and currency, etc.

569. *Chairman*: I think you refer to the report of the Controller of the Currency?—Yes. The report will be made on similar lines. Even in Australia, a half-yearly balance sheet is submitted by the Board of the Commonwealth Bank to Auditor-General, who transmits it with his report to the Treasurer and also to both the Houses of Parliament.

570. *Chairman*: But it is not a Reserve Bank?—Yes, it is.

571. *Mr. Manu Subedar*: That is a Central Bank. Is it not?—Yes.

572. *Chairman*: It is stated "Half-yearly balance sheet shall be submitted by Board to Auditor-General who will transmit it with report to both the Houses of Parliament." It means that the report is made available and it is not that the report is actually made. That is a report which the Auditor-General makes available for the Houses of Parliament?—I do not know whether it is actually made or is made available or is open to discussion. It is further stated "An annual report must be submitted to the Superintendent of Banking containing such information as he may require in conformity with law for publication within three months of the end of the fiscal year."

573. *Chairman*: You will mark that the report is submitted to the Superintendent of Banking and not to the legislatures. My point is this. Do you really want that the report should be submitted to the legislature?—Yes. In America it is done. By the Federal Reserve system, the report is made to the Senate.

574. *Sir Purshotamdas Thakurdas*: The report is made to the Senate for their information. But do you propose that a report should be made even to the shareholders?—There is no shareholders' Bank under the Reserve Bank system suggested by me.

575. Under your scheme it is. Is it not?—No.

576. You say that there should be a capital of Rs. 10 crores for a Bank. What do you mean by that?—Those are debenture holders and not shareholders. Debenture holders have no voice.

577. If it is guaranteed by Government, they will be able to deal with the executive whenever they want?—The Government have no control on the management. So, the report has to be made to Government only to criticise the policy of the Bank.

578. Supposing there are such matters as are dangerous either to the shareholders or the debenture holders, what will you do?—It is entirely in the hands of that House.

579. But what will they do?—They will criticise the policy, not the business and will pass a resolution to that effect.

580. Will that be binding on the central board?—Of course, it will be binding on them.

581. This is a question of the Reserve Bank and if the House passes a resolution, it will be binding on the House and not on the Reserve Bank?—I have not thought over this matter, as it has been just raised.

582. Do you think it is essential that the resolution of the House should be binding on the Bank?—I shall have to think about it and shall let you know about it later on.

583. *Chairman*: If you will kindly supply us with the references of the American system, we shall be much obliged—I have not got them here. I shall send you along with the report for your information.

I know that the report is made by them to their Houses. How far they make suggestions I am not in a position to say. I will let you know later on.

585. You say that only public joint stock companies established in India with the aim of carrying on legitimate banking business should be allowed to make use of the word 'bank'. Could you kindly tell us what you mean precisely by legitimate banking business?—By legitimate banking business I mean opening of accounts and issuing of cheques.

586. Only these two?—These are the essential things.

587. Will there be only two or more?—Also borrowing and lending.

588. Will you rule out what is called at present "agency" work for clients?—I would allow only such companies to put the word 'bank' against their name as would open current accounts, issue cheques and do borrowing and lending business.

589. *Mr. Manu Subedar*: Would you rule out the financing houses?—Yes.

590. *Chairman*: If a bank does some subsidiary work, will you take it out from your definition of the word 'bank'?—Do you mean trading?

591. Not trading. We were told on Saturday that certain banks do business in buying shares, etc. Will you call such institutions banks?—It is a part of the Bank's business. So far as the concerns are making use of cheques and keeping accounts, they may be called a 'bank'.

592. If their business is not restricted to trading alone, but if they carry on trading in addition to issue of cheques, etc., would you still suggest that the word 'bank' should be used?—Yes, if they are a joint stock company.

593. I take it that indigenous bankers also come under the definition of 'bank' so long as they issue cheques, etc. Is it not?—Yes, if they issue cheques and open accounts.

594. In addition to this, can they do trading business?—There is a great harm in allowing banks to do trading business. It is not in the interests of the depositors.

595. *Mr. Khaitan*: You have restricted your definition of 'bank' in the case of joint stock company. That means it would exclude indigenous bankers who have not got themselves registered under the Act. Is it not?—Yes.

596 *Chairman*: A suggestion was made on Saturday that we may leave it to the Reserve Bank, when it comes into existence, to lay down conditions as to the registration of banks before they are allowed to do business. The same thing was said in one of the Provincial Banking Enquiry Committees' report. Is that so?—Yes.

597 *Mr. Manu Subedar*: Would you allow a bank to trade in stocks and shares beyond legitimate investment? Suppose banks habitually indulge in buying stocks and shares and selling them, would you consider it desirable?—It is not desirable.

598. *Sir Purshotamdas Thakurdas*: Will not that be a handicap?—What I mean to say is that it depends on the class of business that a promoter of a bank would like to do. For instance, one would be taking a bit of risk in the business of shares.

599. What do you think should be the main restrictions for a bank? Do you think that speculation should be prohibited?—Banks do business in speculation to some extent. They do forward business in exchange, silver, etc., and this cannot be prohibited. I cannot say where we can draw a line. A good deal of consideration is required; in other parts, the business of banking is not actually the same as in India. In Germany the bank's business in shares is taken as legitimate whereas in London it may not be so considered.

600. Taking the present conditions of India what do you think?—It is desirable that no kind of trading should be done by banks.

601. *Chairman*: You may say that in order to regulate the development of joint stock banks on sound lines it should be laid down that no bank should begin work unless 25 per cent. of its subscribed capital is paid up. If your object is to get some substantial initial capital to give the bank sufficient strength, will it not be preferable to provide for a minimum amount of paid up capital, *e.g.*, Rs. 1 lakh or Rs. 2 lakhs?—Yes.

602. Will that be in addition to the conditions mentioned by you?—Yes

603. You say that there should be no Government examiners to examine a bank's accounts but that there should be auditors chosen from licensed or certified firms and that the latter should have access to the banks at all times. If there should be no Government examiners, am I correct in assuming that you will leave the selection of the auditors to the shareholders from a list of auditors licensed by Government?—Yes.

604. You express the view that it is not desirable that bank accounts should be examined by special Government examiners. Would you favour the inauguration of a system of audit and scrutiny by an agency created by the Reserve Bank on the same lines as the audit and scrutinising agency

working in the United States of America under the Reserve Bank system?—Yes.

605. Do you think that trouble about runs caused by mischievous and ill-founded rumours would be considerably prevented by the fact that the banks have authoritative certificates given by impartial auditors working under the Reserve Bank?—Yes.

606. You say that during the first three or five years of the bank's existence, its total advances against immovable properties should not exceed its paid up capital. What would be your recommendation in regard to investments against immovable property after the initial period?—There should be no restrictions at all. The bank will come to know, with their experience of five or seven years. The matter should be left to the discretion of the board.

607. *Mr. Manu Subedar*: Would you not be against the investment in properties beyond the Bank's own premises?—Most banks have investments in their own properties.

608. *Chairman*: You suggest that joint stock banks in India should issue monthly statements of their assets and liabilities in a simplified form. Will you let the committee have a suitable form for such a statement?—On similar lines as the Imperial Bank's statements.

609. You suggest concerted action by banks in two directions, in insisting on balance sheets from clients, and regulating the opening and closing hours of banks. Do you think there are any other directions in which concerted action will be to the advantage of banking in the country?—Yes, specially in the question of advances concerted action should be taken by the banks as to the minimum and maximum rates of interest and also the question of other charges.

610. *Mr. Khaitan*: What do you mean by "other charges"?—In the mofussil and other places there are godown charges, insurance charges, etc. If there is a uniform rate fixed by the bank, it may help the banks concerned.

611. *Chairman*: In connection with determining the credit of bank's clients, it has been pointed out that an organised agency exists in England which has been formed under the ægis of the big banks and which compiles information about the credit position of traders and merchants and supplies it to banks on payment of an annual subscription. What are your views about the feasibility of such a scheme in India?—It will be most important, because here we find that the private firms do not give their balance sheets to the banks.

612. It has also been suggested that losses to banks can be minimised if a central institution like the Reserve Bank could be privately supplied by each bank of information about the borrowings of its customers so that the Reserve Bank may watch and warn the banks of any risks in lending to overborrowed clients. Will you tell us from your experience if such a proposal commends itself to you?—The difficulty is that it will depend upon the class of men who may be at the head of such a department. For instance, if the officers of the banks are not Indians, they will not know the position of merchants and they will have to depend upon their Indian clerks or Indian assistants. If they are really qualified men, of course they will be able to justify their appointments. So, it will depend upon what class of people you entrust this work to.

613. You may assume that a Reserve Bank on the lines suggested by you is started; then would such a suggestion commend itelf to you?—Yes.

614. *Chairman*: You say that if necessary protection is not afforded to joint stock banks, in course of time banking interests of the country are bound to suffer. One of the measures suggested by you is to prohibit the opening of fresh branches of the Imperial Bank of India at places which, in the opinion of Government, have been adequately supplied by banking facilities by the existing joint stock banks. Will you kindly indicate by what standard Government should judge the adequacy of banking facilities at any place?—Firstly, from the population of the place; and secondly the commercial status of the locality. The Government will be in a position to ask the existing banks to put the figures of the business that they have been doing, and further the Government will be able to judge whether any more banks will be able to work without any disadvantage to the existing banks.

615. Perhaps the work which you are now contemplating will be done more properly later on by the Reserve Bank if it comes into existence.—Yes.

616. *Mr. Khaitan*: You gave two methods first to judge the adequacy of banking facilities in a particular place; now you have added a third.—Yes.

617. *Chairman*: You refer in your memorandum to the Bombay Committee to the necessity of protecting banks against litigious shareholders. It has been suggested that sometimes a bank's credit is sought to be damaged by a bear raid on the stock exchange and that this should be checked by insistence on the seller of every bank's shares giving the actual numbers of shares at the time he sells them. Have you anything to say on this suggestion?—In 1924 I had drawn attention to the Leeman's Act just to show what different countries had done to safeguard their own banks. In 1878 to safeguard the credit of indigenous banks in England and to give due protection to them against credit wreckers on the London Stock Exchange, Government passed an act known as "Leeman's Act". Under this Act the broker who offered bank's shares for sale must have the shares on hand before he could do so. He must give the name of the seller or the numbers of shares to be sold. He cannot execute unlimited bear operations in the shares of any bank he may select for attack, and thus place its credit at his mercy. The Leeman's Act was designed by the Legislature to protect solvent banks against such forms of attacks on the Stock Exchange by their enemies as might bring at times even the strongest bank into a position of embarrassment. Indigenous banking in India is in its infancy, it is just on its legs, and so naturally deserves prompt attention against its enemies from Government by legislation as early as possible. Will the Indian Government step forward in time, as the British Government did in the past, for the protection of its indigenous banks? I have today referred to the Leeman's Act simply to show how different nations of the world and their Governments protect their indigenous banking and run to its assistance in hours of need when attacked by its enemies. In every country indigenous banking is considered as the greatest vital power and the most important factor for the advancement and prosperity of its trade and industries. It is only in poor India that indigenous banking is allowed by the Government to live or die at the mercy of its enemies and no protection is given for its healthy growth as has been done in all the civilised countries of the world. Some measures should be taken by the Government in order to protect their banking institutions. Now, for instance, before the Leeman's Act came into force in 1878, it was common practice for certain speculators or enemies of banks to go on the share market, to sell their securities

and thus cause embarrassment to the banks. This Act was introduced by the Government at that time to stop this practice. Measures should be taken by which protection is given to indigenous banks.

618. Am I to understand from your answer that this danger does not exist at present?—Not to any great extent.

619. Therefore you do not advocate any action to be taken now?—If any action to protect indigenous banks from their enemies is to be taken, this might be kept in view.

620. My point is that the risk does not exist in India at the present moment to any appreciable extent?—But it should be provided for.

621. You refer to a system of district joint stock banks formed with at least one-fourth of their capital subscribed by the city joint stock banks. If the district joint stock banks would be more popular with the public than branches of city banks, can you explain why this plan has not hitherto been tried, say, by your bank?—We have not opened any branches for the last 5 or 6 years, except possibly one. But we have already got plans to work on this line.

622. You say that warehouses should be opened to provide storage facilities. Will you explain how you propose the funds for capital expenditure on such warehouses should be found?—This should be by private enterprise, or the Government should undertake it. I do not think the banks will be able to do much in this line.

623. What is the reason?—Because most of the exchange banks will not be much interested in outside principal cities.

624. What about the Indian banks?—Indian banks are so few in number; and I do not think they would be able to do much in the way of contributing the capital.

625. *Mr. Manu Subedar*: Whatever the letting charges are, you recover them from your clients?—Yes, but here it is a question of initial capital.

626. *Chairman*: Under your scheme of district joint stock banks, why should you not start one or two warehouses in certain important localities?—It has not so far been considered.

627. But *prima facie* you would not consider it wrong in principle?—No. Some banks have, I think, godowns of their own.

628. Subject to financial conditions of banks, I think you agree that warehouses should be started wherever possible?—Yes. But it must be made clear that warehouses do not simply mean godowns for the use of the banks; they should be in charge of responsible parties on whose certificates the bank will depend. It means that a private company will be in charge of these warehouses. They will be responsible for the goods that have been placed in the warehouses and then on their receipt and delivery orders the bank will act. We feel that more capital is necessary, but it should be provided by private enterprise. I do not think that banks would provide it.

629. But it will help the business of the banks. Cannot therefore the banks be expected to finance these enterprises?—It all depends on the interest they have at different places warranting the investment of capital.

630. So you mean to say that they will not open warehouses unless they are satisfied that they will get any business?—That is the position.

631. But if some local individual wanted to establish a warehouse on the lines which you contemplate, would your bank be prepared to consider favourably the question of providing finance?—Yes.

632. *Mr. Manu Subedar*: Even if the bulk of the merchants of that place were not your constituents? For instance in places where the Japanese merchants were handling business, would it be necessary for the Indian banks to provide capital?—No.

633. *Chairman*: It has been suggested that all the banks in a locality should join together and maintain a central independent warehouse. Have you anything to say on this suggestion?—I do not expect they will.

634. A suggestion has been made that Railways might keep warehouses? —That is a good suggestion in as much as the responsibility and the safety of the bank will be ensured.

635. It has been pointed out that the varieties of crops in India make grading difficult and render the working of warehouses not very easy or economical. Have you considered this question at all?—I have not considered this question at all.

636. One of the reasons you give in support of your proposal that foreign banks should be allowed to do business only after obtaining a license is that it is necessary in the interests of the safety of depositors. Can you give the Committee any instance of a foreign bank failure in India and explain with reference to such an actual case how your proposed provisions for granting licenses would have helped the situation?—It is only sheer good luck that so far no weak bank has opened a branch in India. But there is nothing to prevent their coming in, opening a branch and taking deposits. But if a license is to be given, it should be done irrespective of whether a bank is big or small.

637. If a weak foreign bank opened a branch in India, there might be some risk. The point is that there will be less risk in the case of a bigger bank than in the case of a smaller one?—It all depends on the nature of the business that is done.

638. You say that first class indigenous banks of a certain standing should be made members of the Exchange Banks' Association irrespective of the nature of their business. Is not the object of the Association to foster the business of the member banks and is not the nature of the business a relevant consideration?—Yes, so far as foreign exchange banks only are concerned. But my point is that we should have another association by which the indigenous banks may get an opportunity to come in closer contact with them. I do not complain if the foreign exchange banks do not make local banks members of their Association.

639. *Mr. Manu Subedar*: If you were doing exchange business on a small scale, then you would like to be a member?—Yes. So far I do not think any Indian bank has been made a member of that Association.

640. *Mr. Buckley*: You do and have done a certain amount of exchange business. Have you ever applied?—We have not, just for the fear that we may not be entered.

641. *Mr. Buckley*: Well, Mr. Pochkhanawala, I can assure you that you would be welcome.

642. *Mr. Manu Subedar*: Then there is no validity in your complaint?—If we become members of the Association, we will be bound by their rules and regulations, and we shall have to change our hours.

643. *Mr. Buckley*: It has been suggested that this Exchange Banks' Association discriminates. That is not the case. It is for the benefit of the foreign exchange banks, to protect them. I have placed on the table for the information of this Committee a copy of the rules of the Association from which they will see that those rules are merely a matter of procedure for the benefit of everybody concerned. I will refer to that later on.—If banking hours are to be adhered to, we cannot be members of the Association, because they close an hour earlier than our banks. Therefore we cannot even attempt to become members of the Association. What I would suggest is that some Association should be formed in which indigenous banks may be given an opportunity of coming in contact with the other banks. As it is, we have no opportunity.

644. *Chairman*: They have got an Association. Mr. Buckley says he would welcome your bank joining the Association as your bank does exchange business. But you say that it will not be possible for your bank to join the Association because it is difficult for you to conform to all the rules of the Association. That being the position, I do not understand how this can be made a condition precedent to the granting of a license?—They have an established Association already. Your point is that it should be made a condition precedent to the granting of a license that first class indigenous banks should be made members of that Association?—Yes.

645. But you have admitted that that is not a practical proposition?—So far as foreign exchange business is concerned. But the exchange banks are doing local business too.

646. Has the Clearing Houses Association been formed by the foreign exchange banks?—No. The Clearing Houses Association has been formed by the Imperial Bank. What we feel is there is no Association established in which Indian banks can join and Indian banks cannot establish an association all alone. Officers of the Imperial and the Indian banks under European management have an opportunity to meet other European bankers in clubs and associations. But Indian bankers have no such opportunity of meeting one another or of exchanging views with the English bankers. I suggest that some steps must be taken to provide for this, and I suggest that that step should be taken by the European banks because they are in a majority.

647. You said that the Imperial Bank should form bankers' associations in the principal cities on the lines of the Exchange Banks' Association?—If the Imperial Bank started the associations and the foreign banks did not join, then the purpose of the associations would not be served. They should join themselves or they should make the Indian banks join them.

648. In all proposals for restrictions on foreign banks, how far does the principle of reciprocity weigh with you?—The foreign banks come here particularly to finance their own foreign trade. So there can be no principle of reciprocity in any way. They should be made to adhere to the rules and regulations of the Indian Government even if reciprocal restrictions were placed on Indian banks opening branches in their countries.

649. Supposing in a foreign country branches of Indian banks are given facilities for doing banking business, would you not give similar facilities

in return to foreign banks doing business in India?—No. Every country has certain conditions placed on foreign banks. We must form our own rules and regulations and the foreign banks must adhere to them.

650. In most countries, the principle of reciprocity is recognised. For instance, if Italy would give a French bank certain facilities, then France would consider it appropriate *prima facie* that the branch or branches of an Italian bank in France should be given similar facilities. That is the principle of reciprocity I am referring to?—Every country has got certain rules for foreign banks who desire to open branches. In the same way we want the foreign banks desirous of doing business in India to conform to our conditions before they commence business.

651. But there may be certain limitations. Do you favour similar limitations in India?—Limitations according to our requirements.

652. You say foreign exchange-banks should accept policies of approved Indian insurance companies. Will you kindly explain the object of your suggestion? Who would "approve" of the companies?—I would only ask that the foreign exchange banks should be impartial to Indian insurance companies.

653. Would you make the grant of license to the foreign banks subject to a condition that they should provide training facilities to Indians?—Yes I would. At present there are no facilities given by the exchange banks.

Would you also make it a condition for the foreign banks to employ a certain percentage of their staff in India?—I think they are already doing so. In any case I would not lay down any hard or fast percentage.

654. *Mr. Khaitan*: Is there no such condition in some other countries? —It is like this: Certain higher posts are only meant for the officers of the place. For instance, in France you will not find any Englishman enjoying a high position in French banks; so also in Italy. They have their own men occupying higher posts.

So your recommendation is that certain higher posts should be earmarked for the nationals of the country?—Yes.

655. *Chairman*: You refer to the national institutions, do you not? I mean in France, the higher posts in French banks and not in foreign banks are held by the French?—Yes.

656. You say that advantage is taken of the defective law to impair the credit of the Central Bank. Will you explain what defect in law you are referring to?—It is a very important thing. At present according to the Indian Companies Act, any outsider can go to a police court and say that certain balance sheets of such and such a bank are false and thus take criminal proceedings against the directorate and the officers who may have signed the balance sheets. Even if he fails in his object he has nothing to lose. The other party (the bank) has to meet all the costs of the suit in defending the same and their credit, at least for some time to come until the suit is decided, will be at stake; so far as the suit is against a joint stock industrial concern, the public are not much worried about the same, but so far as a banking company is concerned until the judgment is delivered their deposits are naturally affected. Just to quote our own example, the suits took more than 2 years to reach a finality with the result that the bank's work was very much hampered and the depositors were put in a state of suspense.

657. *Mr. Ramdas Pantulu*: Are you aware that there is a provision in the Criminal Procedure Code which empowers the magistrate before whom a complaint is made to make confidential and preliminary enquiries and only proceed with the case if he is satisfied that there is a *prima facie* case against the accused?—I only want that the proceedings should not be conducted in open court and should not be published in the Press.

658. Have you ever asked for that provision in the Criminal Procedure Code to be applied?—

Mr. Mukhtar Singh: It is not for the accused to do so but it is for the court to decide whether he will make a preliminary enquiry or not.

659. *Mr. Manu Subedar*: At any rate, your experience has been to the contrary and that in practice confidential enquiries are never made?—I think so. If there had been any possibility, our solicitors would have taken action in the matter.

660. *Mr. Ramdas Pantulu*: What kind of change in the law would you propose then?—I suggest that before it is brought up before a trying magistrate, the Advocate General or the Registrar of Joint Stock Companies should make private and confidential enquiries into the allegations and if a *prima facie* case is made out, the complaint might go before a court of law.

661. So you want to take away this power from the magistrate?—I have no objection to the complaint being enquired into by him in his chambers.

662. *Mr. Khaitan*: I suppose, just as in the case of trustee suits, you want the opinion of the Advocate General to be taken in the matter beforehand?—Something on those lines might be done before a magistrate takes up the case.

663. *Mr. Ramdas Pantulu*: Do you want the Advocate General to deal with this matter in a judicial manner or an administrative manner?—I cannot give an opinion on that.

664. At any rate, do you want both the parties to be present when he deals with the complaint?—Yes. We only want that no publicity should be given about this affair until a *prima facie* case has been made out.

665. *Chairman*: It might still give room for a certain amount of suspicion?—It might, but it will at least avoid publicity.

666. *Mr. Manu Subedar*: And you will further restrict the publication of the complaint unless and until a *prima facie* case has been made out and then too only along with the written statement of the accused answering the complaint?—Yes, that should be done.

667. *Mr. Davadhar*: Are such complaints against joint stock companies very common?—The number of such complaints are increasing with the increase in the number of joint stock concerns.

668. Dealing with the foreign exchange banks you say that there should be some control on these banks partly in the interest of the trading public and partly in the interest of the indigenous banks. As regards the trading public you say that the foreign banks dictate their own terms to the Indian foreign trade. Will you kindly let the Committee know whether the facilities now provided are unduly costly, giving facts and figures to support your answer?—I think I have already answered the point when I dealt with partial deliveries and B. C. Drafts. I am afraid I cannot give

facts and figures in regard to this, but I may say that these foreign exchange banks are charging commission on the credits opened.

669. *Dr. Hyder*: Am I right in saying that they do this without any discrimination between Indians and non-Indians?—I think there is no discrimination, but Mr. Buckley will be able to tell us what the exact position is.

Mr. Buckley: Mr. Pochkhanawala, under the rules of the Exchange Banks' Association you know absolutely no discrimination is made in the matter.

670. *Mr. Manu Subedar*: Who fixes the daily exchange rate?—The Exchange Banks' Association does.

671. *Chairman*: You refer to the part played by the Central Bank in subscribing to Government loans and suggest that exchange banks have probably not done equally well in the matter. May I know if I am right in thinking that banks investing their funds in Government loans are guided by various considerations such as liquidity of assets, needs of commerce and trade, etc?—We were particularly approached by Government to subscribe to these loans. In the case of the Bombay Development Loan, the Governor of Bombay held a meeting of bankers and all banks were requested to take up subscriptions and successive Finance Members of Government also made similar requests to subscribe in Government loans. We also inaugurated a scheme by which we requested our customers also to subscribe to the loans.

672. I find from a perusal of your scheme which you inaugurated, no mention of any special request having been made to you?—All bankers and banks were approached.

673. So, it was not a special request to you alone?—I do not say that. We just helped the flotation of the loan.

674. *Dr. Hyder*: May I ask you whether such things do enter into the banker's minds, but on the contrary, is it not the rate of return on the investment and the security the main consideration?—Certainly.

675. *Chairman*: That is what I tried to find out.—We invested as much as we possibly could.

676. You say that the Central Bank used to conduct till last year, classes of its own for the staff under a qualified lecturer to coach them up for banking examinations. Am I to understand that the practice has since been discontinued and if so, can you explain to the Committee why it is so?—It was discontinued because of two reasons, due to the policy of retrenchment and because the staff did not take much interest in it.

677. Have you any system of taking probationers in your Bank?—We have not got a regular system, but we take up probationers and fix their salaries according to their merit.

678. What sort of system do you follow in the selection of probationers?—Generally, we take up graduates.

679. *Dr. Hyder*: By open competition or patronage?—We do not do it by open competition, but we go mostly by qualifications.

680. You say that it is desirable to send young Indians after a good training in banks in India for a practical study of exchange and currency abroad, if it could be arranged by Government. Will you kindly explain whether you are referring to Indians already in banks' services in India or to students who are newly trained for banking service?—Both.

681. *Sir Purshotamdas Thakurdas*: Why do you say "if it could be arranged by Government"—The exchange banks do not take any students for training from here. And then there is only the question of the other banks. And why should Government do it? Why not the other private banks do so?—Because private banks are not doing so, that is why I say Government should arrange to send Indians abroad for banking training and practice.

682. *Chairman*: In the proposed 'form F' you suggest that investments should be at or under market rate. It has been suggested that prudent banking requires that the book value of holdings should not be inflated because of adventitious rise in market prices and that such rise should be allowed to increase the secret reserve of the bank. What are your views on this suggestion?—Investments are taken at or under market rates. Sometimes it happens that certain investments may appreciate or depreciate in value. So, in order to adjust them the appreciation in value of one investment is taken to cover up the depreciation in value of other investments.

683. And so, do you mean to say that the adventitious appreciation in value of an investment in case where there is no depreciation in other investments, should be taken into account as profit?—Not unless the appreciation is of a permanent character.

684. In the first instance, how do you determine whether the appreciation is of a permanent character or not?—It can be considered so, if the rise had consistently remained as such for the past few years. The general market tendency is also a good indication.

685. Supposing there is no depreciation and there is only appreciation would you still take the whole of the appreciated value as profit?—Not the whole amount, but only a small portion of the permanent appreciation could be taken as such.

686. Knowing the position in regard to Government paper to-day, how could you say that it will stand at that level for some years to come?—If the price had remained during the past few years as such, and if I consider that it will stand at such. Supposing the price had been standing at 60 and 65, I would perfectly be justified if I valued it at 50 or 55.

687. In connection with the question of exhibition of bad and doubtful debts in the balance sheet in 'form F', it has been suggested by one important association that the original reservation in that form as prescribed in the Indian Companies Act as applied to banks was perfect and that the present alteration is not an improvement but a definite slide-back. Will you kindly let the Committee have your views on this point?—I do not agree with this view because, so far as I am aware, it is not followed by any country in the world.

688. It has been suggested that one of the very important lessons taught by the past history of India is the danger of intimate relationship between banks and companies in which bank's directors were interested, and that the grant of loans to any company or companies in which a bank's directors are directly interested for amounts exceeding a certain percentage of the paid-up capital of the bank should be definitely prohibited. Will you kindly let the Committee have your views on this suggestion?—I am not opposed to lending money to directors against securities, and provided a certain proportion of the advance is fixed, I do not see any objection to it.

689. *Dr. Hyder*: What securities have you in view?—Any marketable security, such as house property, shares, Government paper or any tangible security with which the bank will deal.

690. You would not restrict it to Government securities?—Why should it be done? Any sort of security (provided it is sound) in which a bank would deal would do. If such business is deemed safe in the case of other customers, why should it be forbidden in the case of the directors, and why should such business go to another bank?

691. *Chairman*: The only danger is that the secure position of the securities may not be strictly checked and valued?—That would depend on the management.

692. It has also been suggested that the directors should be required to certify that at no time during the period for which a balance sheet is drawn up, the law was infringed in regard to the above provision and that the auditor's certificate should also include a statement to this effect. What are your views on this suggestion?—I do not approve of this suggestion, as I am in favour of giving loans to directors.

693. It has been suggested that the Indian Companies Act does not make it obligatory on banks to publish a statement of profit and loss account and that a provision for making such publication obligatory is required. What are your views on this suggestion?—I think the profit and loss account should be published.

694. Do you want to make it obligatory on banks to do so?—Yes, I would make the provision obligatory. Even though the law does not make it obligatory on banks to publish their profit and loss accounts, almost all banks do so at present.

695. It has been suggested that the auditors' certificate at present provided for should be amplified and should include a certificate that the auditors have been satisfied that the assets have been truly and properly valued. Have you anything to say on this suggestion?—Before answering this question it is necessary to understand that assets consist of two parts, fixed assets and floating assets. Fixed assets are those such as plant and machinery, land, buildings, etc., and floating assets are those such as investments, book debts, stocks and shares, etc The floating assets are to be valued according to the market value and to the satisfaction of the auditors. To fix the market value of the fixed assets would be impracticable and not advisable. As a rule some depreciation has to be provided from surplus profits from time to time.

696. *Dr. Hyder*: Is it not the practice of banks in European countries to write off a portion of their fixed assets year after year?—We do the same. But they make plenty of profits and are able to write off quickly. Banks in India find it very difficult at times to provide even dividend to shareholders.

697. *Chairman*: You say "In the case of fixed assets, the value should be the initial value after allowing for annual depreciation". That is the rule. All the auditor has to see is that that rule is duly observed and the assets valued accordingly?—There may be some assets on which 5 per cent. depreciation may be necessary; on others 10 per cent. may be necessary.

698. You say in some cases there will be 5 per cent. and in others 10 per cent. depreciation. But I only say that the assets should be

truly and properly valued?—Do you suggest that they should not be at market value?

699. I do not say that. I say they should be truly and properly valued. What do you say to this?—When they are valued, that value will be the same as the one obtaining at the time of valuation.

700. It may happen that you fix 1 per cent. for depreciation and the auditor may say 'No'. Do you think it should be left to the discretion of the auditor?—If that is so, then one auditor may fix 2 per cent. and the other auditor may fix 5 per cent. and so on.

701. So far as I know, it is, to some extent, done in London. That practice prevails among the chartered accountants by which they allow different rates of depreciation for different kinds of assets. I may be wrong, but I say from what I understand. I say that the auditors should grant a certificate that they were satisfied that the assets were truly and properly valued. What do you think?—Auditors do not give a certificate to this effect because fixed assets are taken at book values.

702. Will you now tell me what are your suggestions on these views? —In the first instance, it would not be practicable to value fixed assets of joint stock companies every year. The floating ones are valued at market rates. That distinction should be made.

703. *Sir Purshotamdas Thakurdas*: What do you consider "fixed and floating assets"?—Fixed assets are plant and machinery, buildings, lands, etc. Floating assets are cash, securities, book debts, stock, etc.

704. Is it applicable to the joint stock company or to the bank?— If it is a joint stock company, it will be applicable to them. In the case of banks, their fixed assets are their own properties.

705. *Chairman*: Our point is this. Can we make the auditors give a certificate in an explicit way?—It cannot be.

706. Why not?—So far as I think it will only assist in the case of floating assets. Fixed assets in the case of banks will not be considerable.

707. *Mr. Khaitan*: An auditor should satisfy himself about the sufficiency of the security held by a bank in regard to each and every client. Do you think it is possible for an auditor to verify it? I will give you an example. Suppose you have advanced money to 20 persons on their Calcutta properties. Would it be possible for the auditor, or would it be practicable for him to value each of the properties and will he take the responsibility for saying that the properties on which the loans have been given are sufficient to justify the loans?—These will be under floating assets and the auditor will demand a certificate from the architects to satisfy himself for individual loans.

708. Will he ask for a certificate from the architects from year to year or only once?—Not from year to year. If the auditor thinks that there is a change in the market value, he will ask for a certificate.

709. Is it necessary to get a certificate from the architects and have it submitted to the auditors?—It is for the satisfaction of the auditors. If the auditors want a certificate, we have to give them.

710. Now, I will give you another example. You give loans on the security of two signatories. How is the auditor going to find out the solvency, or position or standing of the parties to whom the loan has been given?—The auditor is supposed to know this.

711. *Chairman*: In regard to these various questions which Mr. Khaitan asked you, I will ask you this. How do the directors assure themselves without the assets being properly valued?—It is like this. So far as the directors of other banks are concerned, I do not know. But the practice of our bank is this. Whenever there is a proposition against any securities, the securities are valued at market value. If they are immoveable properties, we get a certificate from the architects and we fix a margin on such security.

712. Is it every year?—No, the certificate of the architects is sent for when there is an application. They send it only at the time of the grant of loans. If the loan is renewed after two or three years and if the same proposition comes up before the directors, in that case they also send for a certificate. If there is any change in the market value of the property, a fresh valuation report is caused to be made.

713. At the time of the renewal they send the certificate. Is it left to the discretion of the directors?—If the auditors are not satisfied with the architect's report issued two years before, then at their request we get another report from the architects.

714. Then it amounts to this. If the auditors desire, they may insist upon such a certificate even every year?—Yes, but it will be very costly for the clients. Because the clients have to pay the cost of the certificates.

715. Can it not be a safeguard for the depositors' money?—I do not think so. You may say so about securities, but what about the clean advances?

716. Now, my second point is about having auditors at each branch. What do you say to this question?—So far as our bank is concerned, we have got an auditor at each branch. Most of the branches have separate auditors. Their reports are sent to the head office.

717. My point is that there should be an audit simultaneously. Do you agree?—It is not possible. Head Office audit takes about a month whereas the audit of a branch may take only five or fifteen days.

718. You can arrange to have the accounts audited at a certain date, say 31st of March or so?—In that case, it would not be possible to get all the securities checked on a certain date.

719. Will it not prevent an entry being transferred from head office to the branch office?—I do not think so.

720. *Mr. Khaitan*: Will it not be possible to close the accounts of the head office and the branch office on a particular date, say on the 30th of June?—The accounts are closed on the 30th of June but we are discussing their audit.

Lala Harkishan Lal: I do not think the accounts can be audited on a particular day. Suppose there are 160 branches, then the bank will require the services of 160 auditors for carrying out this work.

721. *Chairman*: It has been suggested that banks should be prohibited by law from granting loans to their auditors with or without security. Would you as a banker give a loan to your own auditors? Are you aware of cases of advances made by a bank to its auditors?—Personally I do not see any reason why the auditors or directors should

not be granted loans against proper securities. If they give approved securities, they should be given loans. They should be treated as ordinary clients. I would certainly object to clean loans to auditors.

722. Therefore, I take it that in your Bank this practice of granting loans to auditors obtains. Is it not?—No. Our auditors do not owe us a single rupee on personal security.

723. You see nothing wrong in granting loans to auditors?—No. There is nothing wrong in granting loans against good securities.

724. It has been suggested that there should be legislation providing that no auditor or firm of auditors shall remain in office for more than two consecutive years so as to inspire greater confidence in the bank. What are your views on this subject?—I do not think such a practice is obtaining anywhere that I know of. If the auditors are changed every two years, new auditors will come who may not know the internal working of the bank.

725. *Dr. Hyder*: In Canada there is not only a practice but there is a statutory provision?—I have not heard about it.

726. *Lala Harkishan Lal*: Here the law is different. The law says that a new auditor is to be appointed, if the old auditor declines his re-appointment.

Chairman: The object of my question is this. It has been suggested that in India a law should be made that no auditor shall remain in office for more than two consecutive years. I want to know what Mr. Pochkhanawala's views are?—I do not think this suggestion is in the interest of the company.

727. Do you suggest that it will not be in the interest of the bank?—I say it may be in the interest of the bank but not in the interest of the bank's clients, because when we go on changing auditors, the names of the clients and their credits would be made public. They will not remain secret.

728. With a view to promoting banking in the country, it has been recommended by some of the Provincial Banking Enquiry Committees that there must be a general reduction of rates charged by banks for the remittance of money from one place to another and that discount on cheques payable through a bank be abolished. Have you anything to say on this suggestion?—I do not think this would promote banking in the country. It will be in the interest of the trading community but this will not promote the banking habit. I do not agree with this view.

729. It has been suggested by one witness that this committee should study the possibility of developing credit insurance in India. Can you tell the committee whether the system has been adopted by any existing banks in India and if so, with what result?—I know nothing about it.

730. *Mr. Ramdas Pantulu*: Before I come to my own side, that is, the co-operative bank question, I will ask you one or two questions first. With regard to the exchange banks you stated you would like the idea of reciprocity. Does it mean that you want it in addition to general restrictions which you propose to place on the exchange banks or will

you be satisfied merely with the idea of reciprocity?—I do not quite follow.

731. You said certain restrictions are to be placed on the operations of the exchange banks. You have given that answer to the question of the Chairman. You also said that you would like the idea of reciprocity being applied to exchange banks in this country?—Yes.

732. You stated that in this country in order to improve unhealthy competition by the exchange banks, you wanted some restrictions to be placed. May I know if you want the restrictions to be placed in addition to following the principle of reciprocity?—I want restrictions also to be placed, even if they reciprocate.

733. *Sir Purshotamdas Thakurdas*: With the idea of reciprocity, do you also want restrictions?—Yes.

734. *Mr. Ramdas Pantulu*: Do you think the granting of a license will remove the evils which you have brought out?—It may not remove, but it may alleviate them to a certain extent.

735. The exchange banks have got their branches in every country. So what guarantee will there be that everything will be known about their business at the time of granting a license?—Business transactions will not be known. By a license I mean that certain restrictions should be placed; you may call upon the bank to show their balance sheets, but transactions in India may not be required to be shown.

736. In granting license do you think that protection to Indian banks should be upheld?—I do not think that a license with any such definite terms would be desirable; because banks must be free to do their own transactions.

737. It has been suggested that restrictions should be placed on exchange banks whereby they should not be allowed to open new branches. Do you agree to this?—Yes. If there are several indigenous banks to look after the internal trade of the country.

738. Do you think that the exchange banks may be prevented from opening new branches?—Yes. That will be a sort of encouragement to Indian banks to do business.

739. As regards the Industrial Banks, do you think that new industrial banks will be started if the facilities are given?—Gradually, they might.

740. You cannot give any definite information?—No.

741. You say a great deal about the bank rate varying and Government acting arbitrarily. What is the reason for this?—I have not referred to it. I did not say so.

742. You said that there are fluctuations in rates. That statement you made about the Imperial Bank rate.

743. *Mr. Khaitan*: Why is Government interfering with the fixing of the rate of the Imperial Bank?—For their own exchange operations.

744. *Mr. Ramdas Pantulu*: To maintain the rate of exchange. Is that your reason?—Yes.

745. You said that if middlemen got cheap money to buy the raw produce and competed with each other it may result in benefit to the cultivator in certain circumstances. But my experience is that when a man has got himself established, he either drives the middleman or tries

to get his own terms. I know this in the case of the Tobacco Company in the Guntur district. What do you say to this?—I have already showed my doubts about it. I have said that the difference in the interest rate will not be beneficial to the producers.

746. *Sir Purshotamdas Thakurdas*: Mr. Pantulu's point is that they do benefit the producer.

Mr. Ramdas Pantulu: No, I do not mean to say so.

Chairman: The point of Mr. Pantulu is this. If owing to competition there is a reduction of rate, then the producer may be benefited. But after offering a cheap rate, some compahies establish monopoly and in that case the position may be different.

747. *Mr. Ramdas Pantulu*: I say that in the beginning the exporting houses offer a cheap rate and afterwards the middleman is driven away; then the people are at their mercy. Therefore I ask you whether you see any danger or not?—Yes.

748. You have given a scheme whereby you wish to bring co-operative banks in touch with the joint stock banks, who should lend money to the co-operative banks. At present there are about 600 co-operative central banks. What use will you make of them?—It will be like this. Each district co-operative bank will do business with the joint stock bank of its own district.

749. So, do you say that if these 600 co-operative banks have sound standing, they will get funds from the joint stock banks?—Yes.

750. Do you consider the business of advances on co-operative paper is a legitimate business?—Yes.

751. What usance will you give? Six months or a year?—Generally the bills are drawn for about three months or six months, renewable from time to time.

752. But I may tell you that in the case of co-operative banks, three months period will be too short?—It may be renewed for a further period.

753. At the time, when the Reserve Bank Bill was considered in the select committee, the committee was prepared to give nine months. There is a legislation in America providing for a specially longer period for agricultural paper. What do you say?—It depends upon the usance that the Reserve Bank offers. If the Reserve Bank were to discount bills for nine months, I would have no objection to that period.

754. What facilities do you think the Imperial Bank should give to co-operative banks?—I am not in a position to answer this question.

755. Do you think that the co-operative banks are entitled to some kind of facilities?—Yes.

756. Up to now the Imperial Bank in certain provinces like my own, have been giving cash credits on the backing of co-operative paper on stringent conditions. It was only for a year's duration. They have now circularised that hereafter they should be replaced by Government paper?—It will be very hard for co-operative societies.

757. *Chairman*: Would you agree to your district joint stock bank giving the same concession to the co-operative banks?—The business with the co-operative banks will be mostly restricted to bills and not Government paper.

758. No advances are given on Government papers?—If required, they will be given.

759. *Mr. Ramdas Pantulu*: I am on the question of loans. With regard to the fluid resources we will put our position before you. The co-operative banks are under statutory obligation to maintain fluid resources according to a rigid standard. We are bound to do it. We have been maintaining these fluid resources with the help of the over-drafts given by the Imperial Bank. If that overdraft is cut off we must maintain fluid resources either in cash or in Government securities. There is no other way. It will mean that we have got to have an idle cash balance which will reduce our profits considerably. If we invest them in Government paper, we will be earning less profits than if they were loaned out. Am I right in assuming this? —Yes.

760. What are the obligations of joint stock banks with regard to fluid resources?—No obligation.

Mr. Lamond: They cannot go beyond the safety point.

761. *Mr. Ramdas Pantulu*: The co-operative banks are under severe restrictions with regard to their dividend also. Do you support the co-operative banks in demanding that special facilities should be given to them?—Yes.

762. Are you in favour of establishing an apex co-operative bank for the whole of India?—You know better. I am not in touch with the co-operative banks.

Chairman: But all along you have been giving detailed answers to questions regarding co-operative movement.

763. *Mr. Ramdas Pantulu*: You spoke of land mortgage debentures in your memorandum before the Bombay Provincial Banking Committee. What is your experience in Bombay? Are these debentures easily marketable?—It is difficult to express any opinion at the moment.

764. Do you think if land mortgage banks issued debentures, they would be popular with the public?—I cannot say.

765. You advocated the starting of district joint stock banks. Do you not think that a large number of small banks will not be so strong as a single bank with a number of branches in the districts; such as your Central Bank with a number of branches all over the country?—No, because they will not be directly in touch, while district joint stock banks, if they are separate entities, will be able to manage their own affairs with their own directors.

766. *Dr. Hyder*: Is there not an amalgamation tendency in banking in other countries?—So far as India is concerned, in my opinion, the system which I have outlined would benefit India.

767. If your district joint stock banks maintain reserves sufficient to inspire confidence among their customers, do you not think it will help to strengthen the position of the banks?—People will have more confidence and the borrowings and lendings will be easier.

768. As regards the economy of reserves, do you think it will be a sound proposition?—I think it will be a sound proposition.

769. Are you not in favour of pooling reserves?

Chairman: Dr. Hyder's point is that if the reserves can be transferred from one place to another to meet the requirements of any particular

bank this pooling of reserves will lead to economy. You do not contemplate some similar arrangement. The city joint stock bank, according to your scheme, should subscribe a portion of the capital of the district joint stock banks; but you do not specify what control the former should exercise over the latter?—That is a matter of detail.

770. But that was your intention?—Yes.

771. *Mr. Lamond*: You said the present conditions in India are quite different from those in other parts of the world. May I know in what way?—In the first place we have not got big indigenous banks which can open branches in different places. That is the chief difficulty. If we had, then the conditions which are applicable to other countries would also apply to us.

772. Do you mean to say that these joint stock banks should be opened in the meantime, with a view to their being amalgamated later on?—Yes.

773. *Mr. Devadhar*: You referred to the treatment meted out to the Central Bank by certain exchange banks. Are there any other institutions similar to the Central Bank which have complaints like yours?—May be. I have no personal knowledge.

774. *Chairman*: Mr. Devadhar, on that point our colleague Lala Harkishan Lal might put you considerably wise.

775. *Mr. Devadhar*: You referred to certain protection to be given to some banks against the attempts of other banks to wreck their credit by the spread of malicious reports, etc. Do you think it is because proper balance sheets are not issued or balance sheets are issued which do not inspire confidence in the public?—The Central Bank balance-sheets are audited by two of the best firms of auditors in India, so there cannot be want of confidence. There may be other motives.

776. I think all banks have to issue balance sheets regarding depreciation, appreciation, sinking funds, etc.?—There is no rule.

777. There is some such thing as convention or practice?—The balance sheets are made according to the advice of the auditors.

778. Is provision made for depreciation in every bank?—I do not know about other banks.

779. Whenever appreciation or depreciation in securities take place on a large scale, how are they shown?—They are shown at market value and it is kept as a secret reserve.

780. *Chairman*: Is it always so kept?—It all depends upon the circumstances of each bank.

781. If, for example, the bank wants to appropriate a portion of the amount set apart as a reserve, do they always take the advice of the auditors?—Certainly.

782. *Mr. Devadhar*: There was some reference to loans being granted to directors. In the case of depositors, loans are granted against their deposits. Is not some such practice resorted to in the case of directors?—Directors should be treated as other depositors.

783. If some such steps were taken, there would not be room for doubt.—No. Moreover, all this is clearly brought out in the balance sheet.

784. I think you have laid some stress upon the process of linking of the financing agencies like the Imperial Bank and joint stock banks with the co-operative banks, either provincial or district. Do you believe that

the joint stock banks are really friendly to the co-operative movement?—They are of course not unfriendly. The thing is that there are so few Indian banks and their resources are so restricted that even if they wanted to help the co-operative banks, they are not in a position to do so, because they have not sufficient funds. Their attitude is no doubt friendly.

785. *Mr. Devadhar*: Of course your Bank and the Baroda Bank, I know, are helpful. Would you, as one of the principal bankers in the country, be inclined to say that the Imperial Bank which enjoys so many concessions from Government, should be friendly to the cultivator?—Yes.

786. But you have no instances where their attitude has been unfriendly?—No.

787. I am now talking about the middleman's transactions. If a lower rate of interest is charged by them, the idea is that it benefits the farmer to a certain extent. But supposing this is not the case, would you favour the spread of the co-operative movement among the farmers so as to bring within the farmers' reach the profits of the middleman?—Yes.

788. What is the attitude of the indigenous banker? Have you any idea?—No.

789. But the general trading community and the Chambers of Commerce are in favour of the spread of the co-operative movement in the interests of the farmer?—Yes.

790. You suggest that the sowcar should be forced to reduce the rate of interest. How is that possible?—It will naturally follow if the money is available to the farmer at cheaper rates.

791. Through what agency?—Through the co-operative movement.

THIRD DAY.

Tuesday, the 19th August 1930.

PRESENT.

Sir B. N. MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Sir PURSHOTAMDAS THAKURDAS, Kt., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.

Mr. F. V. RUSHFORTH.

Dr. L. K. HYDER.

Mr. W. LAMOND.

Lala HARKISHAN LAL.

Mr. R. W. BUCKLEY.

Mr. JADU NATH ROY.

Mr. G. K. DEVADHAR, C.I.E.

Mr. RAMDAS PANTULU, and

Chowdhri MUKHTAR SINGH.

Mr. V. K. ARAVAMUDHA AYANGAR, C.I.E., *Secretary*.

Mr. R. P. MASANI,—*Joint Secretary*.

The oral examination of Mr. S. N. POCHKHANAWALA, Managing Director of the Central Bank of India, was continued.

792. *Mr. Lamond*: I should like to refer to the question put by Mr. Ramdas Pantulu yesterday, regarding the financing of co-operative banks by the Imperial Bank. He referred to the withdrawal of certain cash credit facilities against co-operative paper, but he did not mention that the withdrawal is to be spread over a period of 5 years. Mr. Devadhar also referred to the unfriendly attitude of the Imperial Bank. I assure him that it is most friendly. Before putting my questions on this point I should like to explain why the Imperial Bank considered it necessary to withdraw the cash credit facilities within 5 years. In the Madras Presidency the co-operative banks utilise the cash credits granted them on the security of the pro-notes of primary societies as fluid resource for their deposits. In the event of a bank being involved in difficulties, it would be the Imperial Bank's duty to its depositors and shareholders to cancel any undrawn portion of a cash credit granted, if the safety of the Imperial Bank's advance was at all doubtful. This would be just the time when the need for "fluid resources" would be most urgent and the result might be very unfortunate for the co-operative bank concerned. The danger of the Banks relying on such a form of fluid resource is obvious and was drawn attention to forcibly in a minute of dissent signed by three of the seven members of the Committee on Co-operation in Madras in 1927. They say in their minute, "We feel very strongly that the holding of appreciable

tangible liquid assets by the central banks is very necessary as a protection to the agriculturist. If such precautions are not taken, it may be necessary in times of stress to resort to the wholesale calling in of loans, with the result that the security afforded by unlimited liability would have to be realized". The present rapid growth of deposits in Madras is due to the sanction granted to Local Boards and other public bodies to deposit their surplus funds with the co-operative banks. Deposits from such bodies in the Madras Presidency now amount to about Rs. 2 Crores, I am told. The demand is that the Madras banks should now obtain liquid assets of a tangible nature as, if action is delayed, and there is a land-slide in deposits, they might only be able to do so with difficulty. The Imperial Bank's view is that they should arrange for a satisfactory reserve of authorised securities now for fluid resource purposes while their deposits are increasing and thereby put themselves in a strong position. It has also been stated that the co-operative banks cannot hold profitably a reserve of Government securities. If that is so, my own opinion is that they are paying far too high rates of interest on their deposits. To show that the attitude taken up by the Imperial Bank is not unreasonable, I quote a cutting from the "*Times of India*" from its Ootacamund Correspondent dated July 26th of this year. It says:—"The sanction of H. E. the Governor General has been obtained for the introduction of a Bill in the Madras Legislative Council to consolidate and amend the law relating to co-operative societies in the Madras Presidency. The statement of objects and reasons says that as the overdues in credit societies are assuming alarming proportions and the panchayatdars become defaulters, it is proposed to empower the Registrar or the other officers authorised by him to recover the overdue instalments of loans by distraint and sale of movable properties, etc.". Now to go back to the question put by Mr. Ramdas Pantulu—you stated that you were in favour of the Imperial Bank giving advances for fluid resource purposes against co-operative paper. Do you propose that this should be a statutory obligation?—After this explanation of the position of the Imperial Bank by Mr. Lamond, I think the Imperial Bank's action was quite justified.

Chairman: Mr. Pochkhanawala, it would have been more discreet if in reply to Mr. Ramdas Pantulu's question, you had adhered to the attitude you have taken up, an attitude of neutrality with regard to the working of the Co-operative Banks?—If Mr. Ramdas Pantulu had placed the facts also before me along with his questions I would have given him the same answer as I did today.

793. Because this point has been raised by almost all the Provincial Banking Committees, we will give due weight to Mr. Lamond's statement, and it is further possible that we may pursue this matter with the representative of the Imperial Bank when he appears before us.

794. *Mr. Lamond*: You state that the district joint stock banks and the branches of the Imperial Bank in the district should come in touch with co-operative banks and co-operative credit societies in the different talukas of the district and through them, should lend moneys on agricultural products and raw materials. You also state that the co-operative banks and credit societies would borrow moneys from the district bank and Imperial Bank against their holding in bills, etc. What supervision do you consider necessary?—If Government auditors audit co-operative banks, there is no special need for supervision by the Imperial Bank.

795. But co-operative auditing is made by the Registrar of Co-operative Societies. Therefore, you would leave it to the Imperial Bank and the district banks as to whether they should advance or not?—Yes, I have no objection.

796. Referring to the Chairman's question regarding the rediscounting of bills, you stated that joint stock banks will not rediscount bills with the Imperial Bank as no concessional rediscount rate is quoted. In your opinion, has the bill holding of the joint stock banks ever been sufficiently heavy to make the want of special rediscount facilities really felt?—No.

797. Is it not the absence of large blocks of bills which accounts for the present system of banks holding all bills discounted by them and as the bill habit increased, do you not think that rediscount facilities will appear in the ordinary course?—Yes.

798. You say that banks in India have no source of information to determine the credit of their clients except through bazaar reports. And you go on to say that if a bank insists on a client producing his balance sheet to determine his financial position, he resents the idea and goes to another bank, who receives him with open arms without insisting on the information, it being not the practice with banks in India to insist on such information. It has been said that certain banks refuse accommodation owing to lack of information regarding the stability of traders, but it would appear that you do not hold this view. Is that so?—The Central Bank as far as possible insists on its customers producing credentials or balance sheets to prove their stability. But all banks do not follow the same practice.

799. *Chairman*: Do you consider it a salutory practice that a bank should advance money to a particular customer without knowing precisely abount his status and standing?—Advances are being made on the strength of the bazaar reports received.

800. Therefore, your position is that some banks do insist on their clients disclosing their financial position, while some banks are merely satisfied with bazaar reports. Is that so?—Yes.

801. Do you consider placing reliance on bazaar reports and doing business on that basis is correct?—It is not at all satisfactory.

802. Therefore you have nothing to say against banks refusing to advance to customers who hesitate to disclose their state of affairs?—Certainly, I have no objection. And the public also should have no complaints against such a bank acting with prudence.

803. *Mr. Khaitan*: You say that it is not a salutory practice for banks to advance money on the basis of bazaar reports. Do you not think that with the present practice of Indian merchants not publishing their balance sheets, insistence on them to disclose their balance sheets to the banks who make advances to them, would be rather harsh?—As a matter of fact, it would ultimately be in the interests of the merchants themselves, for, they are not now in the habit of preparing yearly balance sheets, but if they are made to do so by reason of this insistence, these merchants will be able to gauge their own financial position every year.

804. *Dr. Hyder*: As regards the point which Mr. Khaitan put to you whether it would not be hard to ask the merchants to produce their

balance sheets, is it not a fact, on the contrary, that the banks would stand to lose by their advancing moneys to their customers without knowing their exact financial position?—That is so.

805. *Mr. Lamond*: You state that owing to the Imperial Bank's advances being restricted to six months, it is never possible for them to give credit facilities to industrial concerns for capital expenditure or block. Do you approve of the Imperial Bank and commercial banks locking up funds by providing finance for this purpose?—No, I do not approve of the locking up of their funds.

806. With regard to separate district joint stock banks, may I know if it will not be difficult to secure funds when the busy season arises?—The district banks will draw their funds from the city bank.

807. You refer to the business hours. Are you in favour of the hours of business being the same and being definitely fixed for all banks in each business centre?—According to the convenience of the business community.

808. You say "For the joint stock banks to take a prominent part in the export and import trade of the country would be still a matter of years, for much will depend on how far Government will give them due protection against unfair competition, etc.". What nature of protection would you suggest be given by Government to the joint stock banks to enable them to take a prominent part in the export and import trade of the country in future years?—That will be stated in the license given by the Government to the foreign banks.

809. Would you not suggest the form or do you leave that to be decided by Government?—I have not thought over the matter. The main competition is at present for deposits. If foreign banks compete with the indigenous banks with their own moneys, then there will be nothing wrong. But if they compete with Indian banks with Indian moneys, then I call it an unfair competition.

810. *Chairman*: I do not understand you?—If foreign banks are trading with their own money brought out from their own head office, they might be allowed to do any business at whatever rate they like. In this way the deposits which now go to the foreign banks will be available to the indigenous banks.

811. *Chairman*: Your proposition is that there should be restrictions placed on the foreign exchange banks receiving deposits in India?—Yes.

812. You said yesterday to my question that you were not against the foreign exchange banks doing such business?—I say certain restrictions on their business should be placed, if the development of Industrial banks and the development of the commercial side of the country is to be effected. This I suggest in accordance with what was being done in America. There all the foreign banks were not allowed to receive deposits. It is, I say, in the interest of the country. That is my personal opinion. It has not been mentioned in the memorandum but it is my personal opinion that certain restrictions, as in America, would be in the interest of the country.

813. Your point is this. Whereas personally you require restrictions of that sort to be imposed, but because your Directors are not in accordance with your opinion, you have not mentioned that point in your memorandum. Is it so?—Through an oversight it might have been omitted.

814. There is no question of omission. I was putting you a number of questions yesterday on this point and at one stage you said there was no competition in deposits. There was competition in lending and borrowing. Therefore what you now say does not fit in with what you said yesterday?—It will fit in if you take it in a different light. If you take the present position, it is all right. But for the sake of development of Indian Banking I personally think that such restrictions should be there.

815. Am I to understand that you think at a subsequent stage it may be necessary to adopt the practice that obtains in America for some years?—Yes, that is so.

816. That makes it clear to some extent. But what you now say varies to some extent from what you said before?—It may be.

817. *Ch. Mukhtar Singh*: Do the directors of the Indian and non-Indian banks frequently meet together and have cordial relations amongst them?—No.

Chairman: I think it may be due to business jealousy.

Lala Harkishen Lal: Whatever it may be, but there is no such arrangement made in this country.

818. *Ch. Mukhtar Singh*: Is it correct to say that the foreign exchange banks bring from foreign countries cheap money and thus help the trade of India?—It is difficult to answer this question unless we get the figure of each exchange bank as regards the amount of Indian deposits.

819. If the entire deposit in the exchange banks be diverted to Indian banks, is it likely that the latter will take up to exchange business?—No.

820. Will it require some more money?—This is a question of co-operation from other banks.

821. You feel that if an Indian exchange bank be started, there will be a keen competition for a number of years between Indian and non-Indian exchange banks; will you then be satisfied if only some restrictions are placed on the foreign exchange banks?—If the exchange banks refuse to do any business, that bank will not be able to do business in exchange.

822. Suppose we agree to grant all the moneys that are required. Will it then be possible?—No, not without the other banks' co-operation.

823. Even then you will require their co-operation?—Yes.

824. How would you bring about the co-operation?—By giving them a license to co-operate with that bank.

825. *Mr. Khaitan*: Do you mean to say by forcing them to co-operate under the license?—Yes.

826. If certain restrictions are recommended to be placed on the foreign exchange banks, would you apply these restrictions to the existing banks, or only new banks will be affected by them?—No, they would apply to all.

827. Is it a fact that the deposits with foreign exchange banks have considerably increased after the War?—No, they have not increased considerably.

828. Would you let us know the authority by which a license of the kind that you propose should be granted?—The Finance Department of the Government of India should be authorised to give a license.

829. Do you consider it to be beneficial to the country if foreign exchange banks be stopped from taking deposits, as is done in the United States of America?—

Chairman: You said "you do not advocate it at present. It may come some time after." The question of Ch. Mukhtar Singh is whether five years hence it will be beneficial to the country, if the foreign exchange banks are stopped from taking deposits as is done in the United States of America?—Yes.

830. Will it be beneficial from the point of view of the trade of the country?—Yes.

831. *Ch. Mukhtar Singh*: How would they not be beneficial if stopped all at once?—Because there will be no outlets.

832. *Chairman*: But will it be harmful to the trade of the country?—It will not be harmful to the trade of the country. Too much money will, however be brought in the country for which there will not be sufficient outlets.

833. *Lala Harkishen Lal*: The witness says that too much money will be made available.

Chairman: Then it will naturally harm the trade.

Mr. Khaitan: Mr. Pochkhanawala says that if the exchange banks are not allowed to receive deposits, then they would bring money from abroad and that money will be available.

834. What will happen if the money is brought out?—If that is done, the money would be made available all at once and there will not be a sufficient outlet. The money market will be easier.

835. You say that will lower the rate of interest, is it not?—Yes.

836. *Ch. Mukhtar Singh*: You agree that the foreign exchange business requires branches of Indian banks to be established in foreign countries; if it is so, is it not likely that other foreign countries will retaliate and will not allow branches of Indian banks to be established in those countries?—I have explained about this. Without the co-operation of the foreign exchange banks we cannot do much.

837. Suppose we restrict the business of the foreign exchange banks in this country?—We cannot restrict their business. We have to allow them to do business under certain restrictions.

838. So, by way of license you will not be doing anything new in this country?—No. It will not be a new thing.

839. Do you not think it ought to be compulsory on the foreign exchange banks to publish their balance sheet and their profit and loss as well as their balance sheet of the working in their own country—They do publish their balance sheets.

840. Is it possible to know the working of the foreign exchange banks therefrom?—Yes.

841. Is there any arrangement made to give information to the cultivator as to the requirement of the foreign market so that, he may be able to

produce the articles of the same standard which are in demand in the foreign market?—I do not know anything about that.

842. If there is no such agency, do you not feel that there is a very great necessity for such an agency?—As I do not know anything about this, I cannot express any opinion on this point.

843. Do you know that in the United States of America which exports agricultural produce in very large quantities sufficient arrangement has been made not only to inform the cultivator as to the requirements of the foreign countries but also to inform the cultivators what they should grow and where? Do you not think that such an agency is very essential for a country like India which mainly depends on its agriculture?—I think illiteracy and want of education will come in their way. You must first educate the cultivator.

844. The question of giving such an information does not require literacy. It is not essential that they should be literate. What do you think?—That information may be of help to Associations and not individuals. And I think this question should be put to the commercial community rather than to a banker.

Chairman: Yes, I think that is not a proper question to be put to Mr. Pochkhanawala who is a banker.

845. *Ch. Mukhtar Singh*: Do you consider that the indigenous banker and money-lender are a necessary link in the banking organization of the country?—Yes.

846. If it is so, how do you link them with the modern system of banking organisation?—By creating a bill market.

847. We are told that in Great Britain there are certain rules by which a foreign firm has to employ a certain number of Britishers in their firm. Have you any personal knowledge of this fact?—No.

848. Can you give us names of industries which have died on account of want of proper financial help?—I do not know.

849. *Chairman*: You have mentioned in your memorandum "attempts have been made from time to time in the last few years to protect industries, etc." Ch. Mukhtar Singh's question arises out of that answer. He wants to know to which industries you refer?—Flour mills, woollen mills and chemical works, etc.

850. *Ch. Mukhtar Singh*: Do you think if the financial facilities had been offered to these industries, they would have not died out?—It is due to various reasons. It is not only due to financial difficulties.

851. Can you name some of the industries which have died out on account of financial difficulties?—Not to my knowledge.

852. If a Reserve Bank is established, do you still feel that there will be a necessity for an Industrial Bank?—I have already answered this question.

Chairman: Yes, he said that it would be necessary.

853. *Ch. Mukhtar Singh*: Some witnesses have told us that industries should precede the establishment of industrial banks?—It is not necessary that the industries should be started before the establishment of the industrial banks.

854. But you say that there is a necessity for such a bank?—Yes.

855. You want the Government to guarantee a certain percentage of dividend upon the money of the Industrial Bank. Will you let us know what voice the Government should have in the management and control of the Industrial Bank?—I have already mentioned this in my memorandum.

856. Have you any knowledge of warehouses in the United States of America and Japan?—No.

857. Do you not consider that if by legislation the joint stock companies or other agencies, starting warehouses in the country, be asked to vouchsafe the correctness of the description in the warrant of articles deposited in their warehouses, it will give a very great credit facility and the banks will be relieved of the botheration of the safety of the articles deposited in the warehouses?—Yes.

858. Do you not feel that the establishment of warehouses for agricultural produce are a necessity for the cultivator in order to get easy credit, and to get good price for their articles?—Yes, that is also necessary.

859. Would you advocate the idea of starting such warehouses by co-operative banks with the help of Government?—I do not know much about the co-operative banks. So, I am not in a position to answer this question.

860. You propose that out of nine Directors for the Reserve Bank, only four should be Indians. Do you consider it to be quite satisfactory or would you amend your proposal by saying that the majority of Directors should be Indians?—I have said there should be *at least* four.

861. Do you not think that there should be a majority of Indians?—It is a majority. Out of seven we have got four.

862. It is mentioned here as nine?—No, it is only seven.

Chairman: Two of them are Governor and Deputy Governor.

863. *Ch. Mukhtar Singh*: Is there sufficient money in the market at the time of harvest?—I do not know.

864. On account of want of sufficient currency in the market, the cultivator has to sell his produce cheaper?—I am not prepared to answer this question.

865. Do you not feel if the method of inspection by Government agency be started in India on the same lines, as it is done in Canada, it will add to the good reputation of Indian banks and that will minimize the chance of wrong rumours being circulated in the commercial world?—I think it will involve a great deal of complication. The European auditors may not know the position of the Indian clients. So, there will be great complication arising from time to time.

866. If Indian inspectors are engaged, will there be any such thing?—You cannot make any restriction in the appointments of inspectors.

867. Do you approve of the idea of inspection?—Yes. As I have said, a license should be given by Government to those who are competent enough to inspect. When this is done, a selection should be made by the banks.

868. You suggest that every complaint before being filed in the Court, should be investigated by the Advocate General. Do you not think that such a procedure will bar the inquiry of real grievance and will retard considerably the administration of justice?—No, I do not think so.

869. In certain cases the enquiry may prolong for a longer time?—In the Court also a case takes about two to three years before it is finally decided.

870. Not every case?—So far as our Bank is concerned, it has taken not less than two years in every case.

871. Why such a long time? Criminal cases are not allowed to be held over for more than six months.

Mr. Khaitan: Here in banking cases the accused is not going to run away.

Ch. Mukhtar Singh: May I know why it happens so?—It is at times for the convenience of the Court, or for the convenience of the accused or the defendant. Cases are heard only for two hours a day at an average and then postponed.

872. Does it generally happen or in exceptional cases?—So far as we are concerned, it has happened in all cases that were filed against us.

873. How many cases were filed against you?—More than half a dozen.

874. Do you not feel that if the Advocate-General grants a sanction for the prosecution, that will create a bad reputation for the bank in the market?—Yes, but here the Advocate-General has to see whether the case is *bona-fide* or not. Sometimes the cases filed are not *bona-fide* ones. For instance, it happens that the enemies of a bank may give certain information on which certain persons just for the sake of black-mailing might proceed against that bank, saying that the balance-sheet of that bank is false.

875. My point is this. If the Advocate-General grants the sanction, then?—If after making enquiries the Advocate-General sanctions it, then the bank has to take its chance.

876. *Ch. Mukhtar Singh*: Do you not feel that law is quite sufficient on the point inasmuch as it gives power to the magistrate to make an enquiry or investigation before proceeding with the case?—At least not to my knowledge.

877. When an application is filed against an institution, naturally the magistrate sees to the allegations made and satisfies himself.—If he makes enquiries in the open court, they are published.

878. Will your purpose not be served if the Government circularises to the magistrates that in complaints against a bank, they should make a more general use of Section 202 of the Criminal Procedure Code and if they find it necessary, they may ask the investigation to be made by some technical expert?

Chairman: The law gives the magistrate certain discretionary power that is statutory; and if Government by executive action were to issue such a circular as you (Ch. Mukhtar Singh) contemplate, then it would mean that the Government would, by that executive action, be depriving the magistrate of a certain amount of the discretionary power which the law gives him.

Ch. Mukhtar Singh: But in a number of cases the Government has circularised the magistrates.

879. (To witness) You do not object to the proceedings going on in the magisterial court?—No, if they are *in camera*.

880. Would you like to have some sort of restrictions on the foreign insurance companies? If so, would you please give us an idea of the restrictions you recommend?—I do not know much about insurance.

881. Do you consider that there is sufficient scope for the students who take banking as their profession?—Yes there is.

882. Do you allow apprentices from banking institutions to work in your bank in order to have an insight into the practical working of the banks?—Yes, a good many.

883. Do you consider there is a sufficient number of qualified men in the country for the Indianisation of the Imperial Bank?—I cannot express an opinion on that. So far as I am concerned, I can meet my wants very satisfactorily with Indian staff. There are many qualified men in the country.

884. Is the paucity of qualified men in the country responsible for the fact that very few Indians find place in the high posts of the Imperial Bank of India, or is it due to any other cause?—I do not wish to answer this question. As I have already said, there are qualified men available and if they are sufficiently trained, I think they might hold responsible positions.

885. Do you not consider that the students who get practical training in London have a wider scope and have a better chance of understanding the money market of the world than a student trained in India?—At present those who are sent to London for training only work there as ordinary clerks. Therefore I say that practical education in India is much better.

886. Do you not consider it a necessary qualification, if an Indian after passing his examination of the Bankers' Institute, goes to supplement his studies in London?—He should have his practical training in India.

887. *Mr. Jadu Nath Roy*: You referred to the 70 crores which are made available annually. Is it not natural that the whole of it will be invested in Government securities?—Part of it may be.

888. You have stated that our industries have suffered for want of sufficient capital, skilled labour, technical knowledge, etc. Is it not possible that practical business men will be able to find the necessary capital and procure skilled labour etc?—Capital can only come forth through confidence.

889. While advocating an Industrial Bank you say that the rate of interest should be guaranteed by Government and then you recommend its revision every five years. Do you not think it would be better to have a fixed rate?—I think it will be better, if the rate is revised, though a fixed rate will be more acceptable to the public.

890. *Mr. Rushforth*: About the Industrial Bank, what would be the relations of the present Industries Departments in the various provinces and the Bank? I gather that they would still have a considerable say in the control of the Bank?—They will be consulted and their recommendations may be considered favourably by the Bank.

891. What definite advantage will there be to the Government in operating through the Industrial Bank rather than through its own offices? What is going to be the advantage to Government in financing an Industrial Bank in order to finance industries rather than dealing with the industries direct?—I think the Government will get great help from the Industrial Bank. They may be inclined to have industrial banks in their provinces, if there is sufficient business offered to them.

892. So you would rather divert the activities of the Government to the Industrial Bank?—Yes.

893. I think the Industrial Commission recommended that State aid should as far as possible be given through banking agencies. I want to be convinced whether this is the most economical way of doing it. What sort of bills would industrial banks discount?—Trade bills.

894. In other words, ordinary commercial bills?—Yes.

895. *Chairman*: Will they issue long term credit on short term bills?—Yes, renewable.

896. *Dr. Hyder*: Is it your idea that the Industrial Bank which you propose should be an industrial bank as such and also perform the functions which are performed by the ordinary commercial banks?—No.

897. *Mr. Lamond*: Do you think that the bills will be renewed?—Yes, when there is an endorsement by the Industrial Bank and then another endorsement by another commercial bank, the Imperial Bank cannot expect any better security.

898. Why not arrange for accommodation on some security?—If the Reserve Bank is not satisfied with the clean security of the Industrial Bank, it might ask for some other security satisfactory to itself.

899. Then the bill as a bill is no good?—Why not, when the Industrial Bank pays the amount on the due date?

900. *Sir Purshotamdas Thakurdas*: Supposing owing to some unforeseen circumstances the Industrial Bank failed to meet its liability on the maturing date, would you expect the borrower, who had borrowed on a long term agreement, to meet that bill at the end of, say 6 months?—No, I would not.

Mr. Lamond's point is that the bill to that extent has no value.

901. *Mr. Rushforth*: Would you, as a practical banker, be prepared to accept responsibility for an Industrial Bank which got money from the Government and then failed to do business?—I do not think that an industrial bank with a capital of 50 lakhs or a crore will fail in the space of a year. And then the figures will be published from which one could find out the condition of the business transacted by the institution.

902. *Chairman*: When one refers to short term bills discounted with the Reserve Bank, does not one refer to bills which are automatically liquidated?—The bill is liquidated by the Industrial Bank on the due date, unless it fails to do so.

903. *Mr. Rushforth*: On the question of the Imperial Bank having opened branches, you stated that what you require is a reasonable margin of profit. Are you aware of any places upcountry where the other banks had to close down simply because of the Imperial Bank having opened its branches?—Yes.

904. *Mr. Buckley*: Does not a prohibition eliminate competition to the detriment of the public?—It would mean practically not selling things at

under-cost but selling things simply at a reasonable margin of profit. Therefore I would request the Committee to ask the Imperial Bank to give a statement of the rates prevailing at their different branches. Without this information we are not in a position to express an opinion. So far as I know, the Imperial Bank also charges higher rates where there is no other bank.

905. *Chairman*: The position ought to be obvious. The Imperial Bank is also a shareholders' bank, and if at any particular place there is no competition and if it finds there is a possibility of making a little more profit, why should it be forbidden to do so?

Mr. Lamond: Sir, so far as the Punjab is concerned, our rates are fixed.

906. *Mr. Rushforth*: Would you have your Central Reserve Bank have only one rate? Will the rediscounting rates be different in different regions?—No.

907. You have referred to the fact that the privileges of the Imperial Bank should cease with the creation of the Reserve Bank. What about the responsibilities which they have undertaken in opening up branches?—They will be at liberty to close down any branches.

908. You would not give them any concession?—That is a matter of detail.

909. In answer to the Chairman you said that increased competition of the Imperial Bank with the exchange banks would lessen the competition of the exchange banks with the local banks. I am not quite clear what you mean by saying so. Will you kindly make yourself a little more clear?—My point is with reference to the foreign trade. If the Imperial Bank find that they could better utilise a portion of the funds at their disposal for foreign exchange business and if they find it a better form of investment, then the Indian indigenous banks will have more opportunities of looking after local business.

910. *Chairman*: You say that the competition between exchange banks and the local banks would diminish in strength. Do you refer to competition in foreign trade or internal trade?—I mean internal trade.

911. *Mr. Rushforth*: In a later answer you said that some restrictions should be placed on the deposits received by the exchange banks and that they should not be allowed to do their foreign exchange business with their deposits received in India. How can they bring out their money?—As we are bringing out money from London.

912. You cannot restrict their use of their own deposits and say that Indian deposits must be used for internal trade only?—Why not, in America such restrictions were enforced.

913. But you forget the foreign banks in America were doing merely agency work?—They should do the same here.

914. *Mr. Rushforth*: The only resources available to the exchange banks would apparently be their sales to Government at gold point. I cannot think that that is going to be satisfactory from the point of view of the country?—Your question requires a good deal of thought to answer.

915. I agree. It seems to me that your suggestion will lead to an impossible state of affairs?—I cannot say that.

916. *Dr. Hyder*: Now Sir, before I begin to put a few questions of my own to the witness, I should just like to perform a duty which Mr. Manu Subedar has imposed on me of putting a few questions which he has jotted and handed over to me to be put to the witness on his behalf.

Now, in the scheme which you have propounded for the formation of an industrial bank, do you want the Government to guarantee interest or the capital. Would you extend this Government guarantee to debentures also when they are raised?—Government guarantee is required only in the initial stages. I have already answered the other questions.

917. Will you be prepared to supply this Committee the cost of management charges of a branch of your bank in India?—I do not know in what way it will help the Committee.

Chairman: It really arises out of your memorandum wherein you have referred to the cost of management.

Mr. Lamond: If you can kindly give us an idea of what the cost of establishment of an up-country branch of your Bank is, it might be useful? —I shall place the suggestion of the Committee before my Directors and shall have no objection to place the facts before you, if they decide to do so.

918. *Dr. Hyder*: The next question of Mr. Manu Subedar is whether you will restrict the borrowing powers of the exchange banks with reference to their capital and reserves?

Chairman: Mr. Pochkhanawala has already stated that the exchange banks should not be allowed to borrow in India more than 25 per cent. of their paid-up capital and reserve, but under no circumstances should the borrowing of each bank exceed its total advances in India.

919. *Dr. Hyder*: Now I will put to you a few questions of my own. You say that smaller industries at present hardly get any support from banks, because without technical knowledge of the industries, banks do not consider it safe to interest themselves in the financing of such industries. Do you think that the banks should have technical knowledge of the industries they are financing?—At least they must get acquainted with the nature and resources of the industry they are asked to finance.

920. Your Bank has initiated a new scheme of drawing deposits from the public on the lines of the Postal Cash Certificates. Is the scheme working well?—Oh yes, it is going on very well.

921. With regard to the assistance by the Government to the Industrial Bank, you say that the Bank should employ technical experts. Who will pay these experts?—I do not want the Government to pay for these men. The bank, of course, must pay. Government may be asked to lend the services of their experts sometimes.

922. And during this period, the bank will pay for their services?—Yes.

923. You say that the development of the Indian indigenous joint stock banks would depend on how far Government will give them due protection against unfair competition. Then you go on to say that this competition should be as little as possible. Would I be right in understanding you to mean that 'unfair' is equal to 'as little as possible' and 'as little as possible' is equal to 'zero'? Do you want to eliminate competition altogether?—I only want unfair competition to disappear.

924. Now Mr. Pochkhanawala, on this question of licensing of foreign exchange banks, occupying as you are a very prominent position in the Indian banking world, I should be very glad to have your opinion as to what exactly you mean by 'licensing'. Whoever the licensing authority may be, do you only want them to issue a permit on a parchment paper?—I have already explained my views on the subject.

925. If there is a country 'A' which does not impose such restrictions as regards the establishment of branches of Indian banks in their country, would you give a similar concession to the nationals of that country to open branches of their banks in our country?—I am not agreeable to the suggestion. We must restrict their operations in this country and if they reciprocate, we do not mind.

926. You are aware that such a policy is a double edged policy and their edge might be much more sharp than ours?—No country in the world has prospered with the aid of foreign banks and our country's prosperity also depends on our own indigenous banking institutions. I do not mind foreign banks coming in after our own indigenous banks have been firmly established in the country.

927. *Chairman*: So your point is that you want these conditions to be imposed in India whatever other countries may or may not do, and you want these conditions to be imposed, because you want the indigenous banks to develop foreign exchange business. Am I correct in saying that that is your point?—Yes.

928. *Dr. Hyder*: Would you like these licenses to be revocable at will of the licensor?—The licence can be renewed after a certain period of time, provided they carry on the business properly in the meantime.

929. In regard to auditors and auditing, you say that the auditors should have access to the banks' books at all times. Is that the general practice now?—Yes, that is the case with our Bank, but I do not know whether other banks follow that policy or not.

930. Why do you object to the examination of bank accounts by Government officers?—I have already explained my reasons.

931. You know that at least in one country in the world the system of examination of banks by Government officials is prevalent. In the first instance Government pays these officers for their work, but later on the money is recouped by assessment on banks on their assets?—But in that case Government issues licenses only to a small body of some special inspectors, and that would amount to the same.

932. *Mr. Buckley*: In answer to the Chairman you said referring to the exchange business that your real complaint was about the B. C. rate which is fixed by the exchange banks and the other was the question of partial deliveries. You are probably aware that the B. C. rate is merely a rate fixed every morning by the exchange banks for the payment of bills due on that particular day or paid on that particular day for which an exchange contract has not been entered into up to the night before. It is a rate which applies to all the clients of exchange banks, whether Indian or European, without discrimination. This rate is never altered during the day except under exceptional circumstances. The amount of exchange put through exchange banks at B. C. rates is extremely small. The rate is usually fixed at about 1/32 below the market rate but the merchants have the option of fixing exchange contracts on which we banks pay brokerage, up to the night before the bill is paid. On the B. C. rate the bank pays no brokerage at all. I do not know what is your complaint?—My complaint is that you would not accept a draft of the Central Bank in payment of B. C.

933. *Mr. Buckley*: Do you not think that it is a fair rule to make that a bank does not accept the draft of another bank in payment of a bill for collection except under a penalty of ¼ per cent.?—I say why should the drawee not have the choice to buy a draft where he can get it at a cheaper rate?

934. *Mr. Buckley*: The bank's argument will be this. They should not be deprived of the profit that they would be getting. The profit in the transaction would be only out of exchange and nothing else?—That is a different consideration. I think the drawee should have the option of buying from the other banks.

935. *Mr. Buckley*: He has an option to do so, and he is only asked to pay a penalty. He has to pay a penalty for bringing a draft of another bank.

936. You complain about the banking hours?—Our clients say that they will have longer banking hours than the exchange banks. As it is, 3-30 to 4-30 P.M. is a busy hour for us.

937. If the question of hours was the only obstacle in the way of the Central Bank, could they not have got over it by some means?—I have not considered the question. I will consider it.

938. I now come to the question of partial deliveries against bills. Do you think that the system of partial deliveries against bills is a good one?—It gives good accommodation to the commercial business men.

939. Now, you are an experienced banker. In times of depression like the present, an importer has imported goods, some of them are saleable and some of them are not. In one bill there might have been various items. If the exchange bank gives partial delivery, would there not be a tendency on the part of the importer to take delivery of the goods which he can sell and leave the other goods?—Whether we give partial delivery or not, it is all the same. If we give the delivery of the goods which are saleable, the other goods will remain with the Bank. Goods saleable today may become unsaleable to-morrow.

940. Will that not result in accumulating liabilities?—It all depends on the conditions and risk that a bank is prepared to take. If you are putting such restrictions now on the commercial community, it will certainly work against their interests.

941. We are not putting any restrictions at all. What we say is this. A Bill comes forward for, say, £100 and what do we do? We ask him to pay the amount and take away the goods.—But at certain times it will be difficult for him to take the whole lot of goods. When you have been taking the risk in this connection for so many years, why do you suddenly stop it? I have never complained about the reasonableness or unreasonableness. My complaint is about the rule which has been arbitrarily laid down by the exchange banks.

942. Do you not consider that this rule would be to your advantage?—I do not say so. The complaint is that when this risk was taken by exchange banks for so many years, why should it not be continued?

Chairman: I think that there is a reasonable answer to that. What I think is this. As a result of so many years' experience the exchange banks must have thought that they could not give that concession, as it would not be in their interest.

Witness: Is it the experience of the exchange banks that giving partial deliveries is not to their interest?

943. *Mr. Buckley*: We have suffered so much in the past that we thought it necessary to have such a rule. I may also say that the rules of the Exchange Bank's Association are for the benefit of the banks concerned?—It may be for the benefit of the banks concerned, but what about the commercial communities?

944. If an importer wants deliveries in small quantities, why should he not write to the exporter to have separate bills drawn?—It is all right But I say it was necessary to give warning to the merchants that a rule will be made to the effect that after three or four months no partial deliveries would be given.

Chairman: Mr. Buckley, you said that the rule was withdrawn after sufficient notice.

Mr. Buckley: I cannot say off hand. It is a good many years since the alteration was made.

Mr. Khaitan: I think it is only two or three years ago.

Mr. Buckley: I may be wrong, but I think it was after the slump in 1921. If the committee would like to know I will find out.

945. If the Imperial Bank were allowed to do exchange business with the Government balances, would they not be in a position to compete with the exchange banks?—Yes. We also say that they should not compete with the indigenous banks with Government money; it only strengthens my argument.

946. You say that you would support the grant of a license to foreign banks if they would provide facilities for training Indians. What do you mean thereby?—If foreign banks are made to employ Indians in higher positions, then they would put the argument forward that they are not properly trained. So, I say if they send their men from their branches to the head office for getting training, it will considerably help the bank as well as the Indian staff.

Chairman: My question referred to training generally, and not to their own staff.

Witness: I am now talking only about their staff. For every higher grade, instead of importing Europeans from their Home office to India, if certain higher positions are to be given to Indians, it will do mutual good to the bank and their staff.

Chairman: That is a different matter. My question was "Would you make the grant of license to the foreign banks subject to a condition that they should provide training facilities to Indians?" And your answer to that question was in the affirmative.—Yes, it is so.

947. *Mr. Buckley*: Do you not think that under the existing system of employment of Indians there is nothing to prevent good and ambitious men from leaving exchange banks and joining the Indian banks?—It may happen in the case of one man. But I say there may be very many such persons and where can we find employment for them outside exchange banks? There is only one exchange bank. There are no other Indian exchange banks.

948. I am sugggesting to you that there is a greater field?—There is absolutely no field at all. As far as my Bank is concerned, I have trained my staff for that Department. That staff is there and unless my exchange business increases, I will not require any men from outside. That is the position.

949. You say "In no country in the world do we find foreign exchange banks doing business in such large numbers as in India. In England, America, France, Germany, Italy, Belgium and Austria, the proportion of foreign banks to indigenous banks is almost negligible." Is not this phenomenon due to indigenous banks in the countries named being highly developed?—But where is the time and opportunity given for development of Indian banks? The exchange banks have got the first footing.

950. *Mr. Khaitan*: You say "Of the major industries, except the Textile Industry of Bombay, there is hardly an industry worth the name which can be said to be suffering from want of finance." Will you kindly tell the committee what are these major industries?—In Bombay, iron and steel companies, hydro-electric companies, etc.

951. Perhaps you are thinking of jute mills also?—Yes.

952. Do you include tea industry and colliery industry also?—Yes.

953. Are you aware that the tea gardens under European management do not suffer on account of want of finance, but there is a great complaint from Indians that tea gardens controlled by Indians do suffer from this. They complain that they do not get sufficient finance. Is it so?—Yes.

954. Similarly, as regards the collieries, those under European management do not suffer but those under Indian management do suffer?—I am talking about those collieries which are under Indians. They do come to us for advances and it is probable that they are not getting support from the European banks.

955. Have you heard that some persons controlling several collieries had to borrow moneys at higher rates, say at 2 per cent. per month?—From outside or from the banks?

From banks?—Yes, I have heard.

956. Therefore, will I not be correct in thinking that this fact arises only in the case of those industrial concerns which are not under European management?—Not exactly.

957. You just now admitted that tea gardens under European management do not suffer from this. Is it not?—Indians do suffer. They may find finance at a little higher rate.

958. Do you call 2 per cent. a month a 'little higher rate'?—It may be an exception.

959. Is it not correct that some Indians find moneys at a higher rate and some do not find at all?—Yes, that is so.

Chairman: Have you any idea as to why these concerns do not get accommodation in regard to loans at a lower rate of interest?—It all depends on the security and the surplus that the bank may have.

Mr. Khaitan: You say everything depends on the security?—Yes.

Chairman: You think that the security plays a great part?—Yes.

Mr. Khaitan: You told the Chairman just now that the security may

play a great part in such transactions. What do you consider about the tea gardens?—They are good securities. But one has to consider each individual security. To lend money on tea gardens is part of the banking business and we have been doing it on a smaller scale.

960. Later on you say in the third paragraph of your statement "If the banking system of India is to continue in its present form without a Reserve Bank, we think an Industrial Bank with Government support and having its Head Office at Bombay or Calcutta should be established on the following lines, etc." Do you think that if a Reserve Bank is started, there should also be Industrial Bank?—Yes. I stated it yesterday.

961. You recommend that the capital of an Industrial Bank should be fixed at 50 lakhs of rupees to start with. Do you think Rs. 50 lakhs would be sufficient?—I say "to start with".

962. If the Industrial Bank has a capital of Rs. 50 lakhs, do you think that their debentures and bonds will find a good market?—If it is found necessary to increase the capital, it may be gradually increased.

963. Do you think that, if the bank has only Rs. 50 lakhs, the people knowing that the Bank is advancing moneys against block would offer a good market for debentures?—To a certain extent. Because there will be a capital of Rs. 50 lakhs *plus* the security obtained.

964. I believe you agree that it will be better if the Industrial Bank can even be started with larger funds?—The question is whether the funds can be at once employed or not.

965. And therefore you would like to make a modest beginning?—Yes.

966. Later on, you say "It may accept deposits for a period not shorter than three years." What is your experience as a banker? Do you find people willing to deposit for a period of three years?—The general practice is only for twelve months. But if people find a good rate, they may.

967. What do you mean by a good rate?—Something like ¼ per cent. more than the running rate. If such a rate is offered, it may have an attraction for the public.

968. By ruling rate you mean the Government borrowing rate?—The rate on deposits in the banks.

969. What is your objection to the industrial banks receiving deposits for one year?—Because they will compete with the indigenous banks.

970. You say "Industrial Bank should not do commercial banking." You are surely aware of the recommendations of the Industrial Commission. In its report, paragraph 289, it says: "It appears to follow that an industrial bank with a sufficiently large capital to ensure its safe working must, at any rate for some time, combine ordinary banking business with its industrial activities to enable it to obtain a return on its capital." What do you say to this?—Therefore I have suggested that there should be only a small capital to start with. I do not agree that the Industrial Bank should do commercial business.

971. You know that in commercial banking there are two forms of finance. One is against the block and the other is against the liquid assets. Liquid assets are for working capital and the other is against the block of factories and workshops?—I think that is the proper work of the Industrial Bank.

972. As regards the latter, finding money on stocks or raw products, would you exclude that?—I would not. But I think it can be done by the commercial banks.

973. Suppose the commercial banks are not available?—Then it should be done by the Industrial Banks. But the provision should be made in the Articles that they are empowered to do that kind of business.

974. *Mr. Khaitan*: In this connection I would remind you of some questions which were put to you by Mr. Rushforth about the Industrial Bank having bills. You said in reply that the Industrial Bank could put forward bills to the Reserve Bank, which would be renewable, and some objection was taken on technical grounds that those would not be proper bills to give to the Reserve Bank. What I am asking is this: Supposing the Industrial Bank were to operate like this; so far as advances against block was concerned, the Industrial Bank could sell debentures in the market because it would hold mortgages for long periods over the block assets?—No, there will be no bills on them.

975. *Chairman*: May I refer you to your scheme? You said, talking of your industrial bank, that this bank should do no other business except financing of industries in their primary stages until such time as the concerns can acquire for themselves sufficient credit. Does not that confine the operations of your industrial bank to the provision of capital for block?—Yes.

976. I also pursued the question of the short-term deposits, and you were very definite that they should not provide any capital for working expenses.—Yes, after the initial stage.

977. You said that "it should do no other business". Would you like to modify that statement?—That would not be affected at all.

978. Why should not the industrial bank be allowed to take short-term deposits?—If they take deposits, then they again compete with indigenous banks.

979. *Dr. Hyder*: Then you would make a definite statement that it should do no commercial banking.—But the industrial bank should not be debarred from making short term advances, if such advances are not available from other banks.

980. *Chairman*: Who is going to determine that they are not getting accommodation for their short term requirements from other banks? Immediately competition is started in the lending business the other banks will complain, and if there is competition with regard to the receipt of deposits, they will complain again. Who is going to determine all this?—I admit there will be difficulty no doubt. But if the industrial bank has provided the block and the company is in the running stage and the money is required for raw produce, there will be no difficulty for the company to get accommodation elsewhere, that is, with commercial or other banks.

981. *Mr. Khaitan*: What other commercial banks?—For instance the Imperial Bank would be glad to give accommodation against raw produce.

982. *Mr. Lamond*: Do you think that companies with a charge over block will find it easy to get accommodation against liquid assets?—With a certain margin they would.

983. *Mr. Khaitan*: You mentioned the Imperial Bank. But in the case of the cotton mills in the interior, the Imperial Bank do not get possession of the articles. Do they make up for it by a charge on the mill itself?—Yes, if they do not take possession.

984. How would you provide for that?—They will only get accommodation on such articles as they could get possession of.

985. If the Bank has no branch office in a certain place, what then?—They can send a representative to that place to take possession.

986. You have said that not more than 25 per cent. of the paid up capital should be invested in a particular industry. You have fixed the capital at 50 lakhs; that means that the Industrial Bank is not to advance more than 12½ lakhs—That is to start with.

987. What is 12½ lakhs for a particular industry? Supposing the cotton mill industry wanted assistance from the Industrial Bank?—The capital can be increased in a few months.

988. What do you mean by the word 'capital'?—The paid-up capital of the Industrial Bank.

989. Would you include the reserves of the Industrial Bank in that?—To start with, there will be no reserve. If the capital and reserves go on increasing, then this amount will also increase; instead of 12½ lakhs it will be much more.

990. You say that foreign exchange banks should not be allowed to borrow in India more than 25 per cent. of their paid up capital and reserves. I suppose what you had in your mind was that there should be some restriction on their borrowing powers, so that the indigenous banks may get more deposits. Is not that so?—Yes.

991. Could you tell the Committee what is your idea regarding the total paid up capital of all the banks? Have you calculated what 25 per cent. of that is? It will be over £45 million.—Yes.

992. Is there much difference between 45 million and 50 million? Would you then be prepared to change your opinion now about the 25 per cent.? Do you not think that the restrictions should not permit of their taking much less than 25 per cent. of their paid up capital and reserve in India?—It is my opinion. I would not alter it.

Chairman: Mr. Khaitan, it is no use now pursuing the matter further.

993. *Mr. Khaitan*: How does your second condition work out in actual practice? Mr. Buckley told you yesterday that as regards advances in India, they are more or less of a seasonal character. In the slack season they make less advances while in the busy season they make more advances in India. Would you take their minimum advances or maximum advances?—The advances in India should be of a permanent character.

994. Could you define 'advances in India'?—Advances against produce, against shares; against properties; they are advances of a permanent character.

995. Would you exclude all advances in respect of foreign trade?

Mr. Lamond: Excluding the export bills?—Excluding foreign business altogether.

996. *Mr. Khaitan*: Yesterday you said in answer to Mr. Ramadas Pantulu that the foreign exchange banks should be allowed to do internal

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trade unless there were sufficient indigenous banks. Do you mean to suggest that no restriction should be placed upon the foreign exchange banks going into the interior and competing with Indian banks?—No; I have already explained that wherever they want to open any branches, Government's permission should be obtained.

997. Supposing that the Government allow the exchange banks to start branches in the interior, would not that stand in the way of the indigenous joint stock banks doing business?—Yes, it would considerably.

998. Would you not like to prevent such a possibility occurring?—Supposing at one place there are no banks and if exchange banks want to go there for certain reasons, they should be allowed to have branches there, as otherwise we shall be withholding banking facilities from that place.

999. Would you not, on the other hand, desire some sort of scheme whereby some Indian joint stock banks might be helped to start a branch there?—I would certainly prefer that if it could be done.

1000. *Chairman*: What kind of assistance would be needed?—If the question is one of financial assistance, what is the good of that bank going there? Every bank would naturally consider whether the business that is offered is profitable or not. But if the foreign exchange banks prefer to open a branch at a certain place, where there are no banking facilities, I would not prevent them from going there.

1001. Are there indigenous bankers everywhere?—I cannot say.

Lala Harkishan Lal: In the Punjab we have found that there are only 60 indigenous bankers.

Chairman: Mr. Khaitan is apparently confusing the indigenous banker and the indigenous money-lender.

1002. *Mr. Khaitan*: We have talked of the Industrial Bank and I believe certain questions were asked of you about the State Aid to Industries Act. Have you got any experience of its working at the present moment?—I had one or two instances in which State aid was given. I do not know about the other provinces.

1003. Are you aware that at the present moment assistance given under that Act is of a very spasmodic nature?—I do not know.

1004. Sometimes a provincial Government can include a grant in the budget and sometimes they cannot. Would you like that to be placed on a better footing?—Yes, before the Industrial Bank is started.

1005. You remember that the State Aid to Industries Act is primarily intended for cottage industries. Do you think that an all-India Industrial Bank would be able to finance cottage industries?—No.

1006. There might be industries in the interior where the Industrial Bank may not reach. At those places do you not think that help given under the State Aid to Industries Act will be very welcome?—Such help could be given by the co-operative banks.

1007. But if the industries are of such a large nature that the co-operative banks cannot give all the help required, what then?—Then of course, state aid is essential.

1008. In your experience as a banker have you often-times found difficulty in passing titles that are governed by the Mitakshara law of inheritance?—We would obtain legal opinion on this matter.

1009. Has it ever been your experience that people governed by the Mitakshara law have found it difficult to prove their titles?—I am not in a position to answer that question.

1010. *Sir Purshotamdas Thakurdas*: Under Section I, question 4 of the questionnaire issued by this Committee reads as follows:—If in your opinion banks in India have not financed industries large, or small freely, to what causes do you attribute their reluctance? Do you think financing of industries is possible by banks as they exist at present and by their present methods? In answer to this question one important commercial body has said as follows:—"The reluctance of existing banks to finance industries may be traced to several causes. First, the banks themselves are ill-equipped for the purpose of undertaking regular finance of industries and they are distinctly of a commercial character and as such competent to grant only short term loans. Secondly, their hesitancy in granting loans for even short periods is mainly due to the uncertain prospects of industrial investments in this country traceable to no mean extent to the fiscal and currency policy of the Government of India". Referring to the second part of the answer, do you agree with what is said?—I entirely agree with what is said. For example, I will give a concrete case. We wanted some advances from a London bank against Treasury Bills. They wanted 20 per cent. margin owing to the fear that the exchange ratio may be changed.

1011. Have you ever advanced moneys to any industrial concern in India on debentures?—Yes.

1012. I understand you had advanced funds to the Nira Valley Sugar Company for their debentures and that you had very great difficulty in realising what you had advanced and as a matter of fact your Bank lost some money in the transaction. Is that so?—Yes. It was a transaction transferred to us.

1013. With such an experience before you, you will not venture to advance any more moneys to such an industrial concern?—No.

1014. Can that be said to be due to the want of policy of protection of the Government of India?—Yes.

1015. Why is it banks avoid debentures and take only to investments in shares?—Personally, I would prefer to make advances on debentures rather than shares.

1016. Can you get debentures to advance against?—Not very freely.

1017. Now regarding the Reserve Bank, I see that you lay down 9 conditions, and the first is the issue of debentures guaranteed by Government. Do you want the capital or the interest on the debentures to be guaranteed by Government?—As they are only for a certain period and there is nothing for the Reserve Bank except its goodwill, the guarantee of the Government is required. It comes to this that it is practically a loan from Government by the latter guaranteeing the amount.

1018. In other words it would amount to Government of India paper? —Yes.

1019. And whilst you suggest that Government should guarantee the debentures of the Reserve Bank, I understood you to say in the course of examination yesterday that you were reluctant to give Government any say or voice in the matter. Is that so?—Government may have a say in the matter, but theirs should not be the final voice.

1020. You say that Government should not have any effective control in the management of the Reserve Bank? In the first place according to your suggestion the whole Board of Management is practically nominated by Government. Is that not so?—But that does not mean control by Government. Government only nominates the first members of the Board, so that there may be an effective arrangement as to the running of the Bank.

1021. Who will have the effective control of the Reserve Bank? What happens 5 years later?—Every year from the Report on the working of the Reserve Bank and by other means, Government will be able to see the progress of the Bank and when Government entrusts the whole of the currency and note issue to the Bank, naturally Government will have some voice in the management through their Finance and Commerce Members.

1022. Who will have the effective control over the working of the Reserve Bank? To whom are the Directors responsible?—To the public and to the country at large.

1023. But what is the value of their responsibility to the country and the public? Except that the public can criticise their working, who can prevent them from doing such and such a thing?—That is why I suggest that their annual report should be placed before the Imperial Legislatures for their consideration.

1024. Do you think that is an adequate control?—If the proper choice of men is made as Directors, then the control will be adequate in the manner indicated by me.

1025. I am only trying to understand your scheme. Once these Directors have been appointed by both the Houses of Legislature, you think it will be quite enough control?—Yes. Except that the Government should choose the Directors from out of the panel chosen by the Legislatures, they should have nothing more to do.

1026. And your view is that although Government guarantees the whole capital, they should have no effective voice in the management of the Reserve Bank?—That is my view.

1027. Now regarding the remuneration which you have indicated in the memorandum for the Directors, do you think that under the present conditions you can get capable men for a remuneration of Rs. 2,500 or Rs. 3,000 per mensem to run the Reserve Bank?—I think so. It is only a matter of detail.

1028. So, you have no objection to paying any higher remuneration to get really good men to run the Bank?—I have no objection to their being paid higher salaries. My only consideration is that the very best men should be recruited.

1029. Then from your experience what do you think should be paid to get really good men?—We may have to pay about Rs. 3,000 or even a little more.

1030. You say that when there is a Reserve Bank the capital for the Industrial Bank which you contemplate, may be less, but otherwise the

capital for the latter Bank should be more. Why do you differentiate?—I am only particular about rediscounting facilities.

1031. With re-discounting facilities, the requirements of the Industrial Bank would be smaller. Is that what you say?—Yes.

1032. In connection with what you say with regard to the reduction of the rate of interest for the benefit of the middlemen up-country, you say that does not mean any assistance to agriculture. Do you know what happened when the Tata Industrial Bank opened a branch at Hapur? Till 1922 the Allahabad Bank alone did banking business there, and they were lending on wheat in pits at rates of interest ranging between 12 and 16 per cent. between the months of April and November. When the Tata Industrial Bank opened a branch there, they cut down the rate of interest to 10 per cent. and later on when the Imperial Bank opened a branch there, they cut down the rate still further to 7 or 6 per cent. Do you think that competition of the Imperial Bank is a thing to be objected to?—I have not got anything to say against so far as it is a reasonable rate of interest.

1033. Do you not think that even 7 per cent. is a high rate of interest for financing goods during the months when money is going a-begging at the principal Presidency towns of the country?—It cannot be considered a high rate because in this case the advances are made only for a few months in the year, while all the year round we have to keep an establishment all the same at that place.

1034. Do you keep a costly establishment there?—No. Even at present, our business is not up to much there. Because there are 3 or 4 banks in the place, our investments hardly come to 3 or 4 lakhs of rupees. If we are able to invest large amounts in the slack season, then the interest rate may be said to be high.

1035. Any way you do not object to the Imperial Bank having reduced the rate to 6 per cent.?—No. Still three banks being in existence there, none of them is making a profit. I object to the market being thrown open at one place where there is not sufficient business. As it is, we will have to close the branch of the Central Bank at that place. Formerly our investments amounted to about Rs. 10 lakhs but now they have been reduced considerably owing to competition, although our establishment charges are the same.

1036. In any case, now that the local middle-man has to pay only 6 per cent., to that extent he has had relief and to that extent he will be a better buyer from the growers. Therefore, the Imperial Bank's competition has really bettered the position of the cultivator?—It may be so at certain places. If the Imperial Bank's lending rate is only 7 per cent. I have no objection, but I would not approve if the rate is under 7 per cent.

1037. You have said that because the exchange banks are attracting deposits at a lower rate than the Indian indigenous banks, some restrictions should be placed on their operations. Does it not amount to your asking for protection against the exchange banks?—It comes practically to the same thing.

1038. And the net result of all that is that you have formed an opinion out of 30 years of experience in banking that if the Indian indigenous banking is to flourish, you must be protected against competition by the exchange banks?—Yes.

1039. Now, in spite of your being a liberal in politics you are really holding extremist views in banking matters?—It is really a matter of life and death with Indian indigenous banking institutions.

1040. That is your deliberate opinion?—Yes.

1041. With regard to your financial self-government, I wish to ask whether you can conjure the picture of self-government under the present constitution of the Government of India, the Finance Department not being responsible to the Legislature and liable to dictation from Whitehall and the Secretary of State for India?—But that state of affairs will all be wiped out under my scheme.

1042. How do you say that?—The Directorate of the Reserve Bank will have nothing to do with the Finance Department or Whitehall.

1043. But the first appointments are to be made by the Government of India?—Out of the panel approved by the Legislatures.

1044. So then you think that without any change in the present constitution of the Government of India, if you got your scheme through regarding the establishment of the Reserve Bank, you will have financial self-government even when the Government is not responsible to the Legislature?—I think so. I think that out of the deliberations of the Round Table Conference we will get some political preference which might give better financial control.

1045. Do you know what is going to happen at the Round Table Conference? I understand one important City is now advocating the going back upon the Montague-Chelmsford Reforms.

1046. And you feel that there can be no influence exercised by the Government of India in a scheme of the setting up of the Reserve Bank adumbrated by you?—There need be no apprehension, provided the right men are selected.

1047. And then you feel that it will ensure financial Swaraj?—Yes.

1048. You say that the Reserve Bank debentures should carry interest at 5½ per cent. or 6 per cent. I do not think you will stick to that rate? —No, it will only depend upon the prevailing conditions.

1049. You were asked a few questions about reciprocity in regard to some restrictions which you want to be placed on the working of exchange banks in this country, and you said that you do not mind what other countries do, but you want to place restrictions on the operations of the exchange banks in our country?—Yes.

1050. I thought you did not go quite so far yesterday. Do you think it is necessary to go so far because the British banks will escape our control?—Yes, that is my position.

1051. You know in Great Britain no restrictions are placed upon foreign banking institutions operating in that country?—But the foreign banks are asked to maintain separate balance sheets for their operations in Great Britain. What is true of London is also true of France.

1052. Therefore, for the protection of Indian indigenous banks you want restrictions to be imposed on all foreign banks irrespective of the fact whether they place restrictions in their country or not. That is your position?—Yes.

1053. I wonder whether you have ever tried to discount your bills in the London market?—Yes, we have discounted documentary bills.

1054. Are you aware that the Bank of England does not discount bills unless it contains two signatures of banking firms or other business houses? —We have had no dealings with the Bank of England.

1055. What is your opinion regarding the present condition of the indigenous shroff, the multani, the chetti and others? Do you think anything should be done to improve their lot and if so in what direction? Or do you think that they should be driven out of the banking field slowly? —Till the Indian indigenous banks get themselves established in this country, these small money-lenders are a great necessity for the internal finance of the country.

1056. You do not think that the Indian joint stock banks can in the near future replace them?—Till conditions improve they will have to be considered as an important factor but when conditions improve, they will also gradually merge in the Indian joint stock business.

1057. In what direction can assistance be given to the indigenous bankers?—I cannot think in what way assistance can be given. I do not think that Government can give any assistance to them in any way. If they co-operate with the Indian banks, it may help them much. It is in the interest of the Indian banks as well as the indigenous bankers to co-operate with each other.

1058. In what way do you desire them to co-operate? We have received the Provincial Banking Enquiry Committees' Reports and from those Reports we find that these indigenous bankers or what is known as Shroffs are indispensable for the convenience of the masses and of the cultivators? —I think what you mean by "Shroffs" is Sowcars.

1059. You call them by whatever name you like?—No, I will make a distinction between a shroff and a Sowcar. A Sowcar is a money-lender in the village and the shroff is a money-lender in the commercial towns and urban areas.

1060. I want to know if such a class start a business under the dignified name of "Indigenous Bankers", will it be necessary for them to take out a license abiding by some important conditions, that is (1) keep regular books of accounts which will be checked by auditors appointed by local provincial Government or some such authority; (2) not trade or speculate but purely deal in money and nothing else; (3) lend moneys at a maximum rate of 2 per cent. or 3 per cent. over the Bank rate and not higher than that, thus putting a sort of control over his tendency to exact as much as he likes, and (4) be given in return for all this, facility for having his bills discounted by the Reserve Bank up to a certain amount. These are roughly the conditions by which he has to abide. Would you then consider it advisable to give them support?—Yes.

1061. So, you have no objection to this sort of support being given to them?—No.

Chairman: I do think that you have recommended this in your memorandum?—I have suggested it.

1062. *Sir Purshotamdas Thakurdas*: The idea is to do this, if it is feasible, by way of legislation.

1063. *Dr. Hyder*: You are aware that these indigenous bankers—Marwaris and other shroffs—have been working here since centuries. They have been advancing moneys for centuries. But at present they

say that their business is going out of the way on account of the introduction of means of communication and other things. For instance, in the Punjab Report it is mentioned that they have gone out of business. So, I take it that your idea in suggesting the method is to fill in a gap which is there at present in the banking system. Do you suggest that these men should occupy in the banking system of India the position which the acceptance houses in London occupy in the financial and banking system of London?—No. Not exactly.

1064. You know that the word of certain merchants who are in the London market is a word of honour and once their signature is obtained, the bills are readily discounted?—Here there is no question of acceptances. It will be the question of endorsement.

1065. *Sir Purshotamdas Thakurdas*: Bills endorsed by them will be discountable by the Reserve Bank.

Dr. Hyder: That is what is precisely done in London.

1066. *Sir Purshotamdas Thakurdas*: So, you agree that unless what has been suggested is done, it will be a great hardship in regard to the financing of the masses and it will be a handicap?—I want to know whether this Committee has suggested as to how the financial assistance should be given and what kind of restrictions are to be placed.

1067. They would be registered like the joint stock banks. They will be treated in the same way as "banks".—The crux of the question is that they would have direct connection with the Reserve Bank and there will be certain restrictions placed on them?—They will not have direct touch with the Reserve Bank.

1068. But suppose they got it, would you mind it?—How can an indigenous banker discounting bills for 2 lakhs or for whatever limit there might be compete with the joint stock bank? They cannot compete with the indigenous joint stock banks; so, I want to know whether the Reserve Bank would discount their bills directly. If that is done, there will be many other merchants who would like to have their bills discounted by the Reserve Bank.

1069. Merchants cannot do that.—What objection is there? For instance, I say this Jethmal will be saying "I have opened the books and the Bank will be able to know about my financial position."

1070. *Mr. Khaitan*: Do you mean to say the bills of the indigenous bankers should not be discounted by the Reserve Bank?—It is a question for consideration, when the material things about the Reserve Bank are considered.

1071. It will be then on the same lines as the system of the Federal Reserve Bank. It is said that that Bank does not discount bills of the acceptance houses but only the bills of member Banks and they are not therefore able to control the money market Have you heard about that criticism?—That would be a matter for consideration.

1072. *Sir Purshotamdas Thakurdas*: But from the indigenous bank's point of view you have no objection?—No.

1073. Under the heading of "Cost of management" you say "It is difficult to determine the correct ratio of expenditure in the management of banks from the published balance sheets, and an off-hand comparison between banks in this respect by simply working out the ratios from the figures of the respective balance-sheets would be erroneous". You also

say that you would prefer to remedy it. You quote such a ratio of profits to be a failure. Is it so?—I do not think I have said it is a wrong thing to do so.

Chairman: Of course, you do not use the word "failure" there in your memorandum.

Witness: What I mean to say is this. Suppose a Bank carries forward Rs. 3 lakhs and the profit is only Rs. 5 lakhs. They take a ratio on Rs. 8 lakhs. What I should like to do is that they should only take a ratio on Rs. 5 lakhs.

1074. *Sir Purshotamdas Thakurdas*: You say that this carrying forward business should not be included?—Yes.

1075. You say "A bank without any branches or having just a few is always able to show a smaller expenditure ratio than a bank with a number of branches". Therefore, the Imperial Bank's working ratio would be higher. Is it not?—Yes, provided that Bank is working with its own funds. Here the profits include interest on Government funds which are with them without interest.

1076. Your only complaint is about the Imperial Bank?—I have never complained about that Bank in this matter.

1077. I am trying to find out whether you have anything to say about the ratio of the Imperial Bank?—I have nothing to say.

1078. Is it not a fact that in order to show that the Imperial Bank's expenditure ratio is higher you have put this in your memorandum?—No.

1079. Some witnesses have sent to us some interesting literature giving us instances and reasons why there have been failures in the past in the case of certain banks. Another critic has stated that the failure or want of success of indigenous banks can be stated to be due to no fair field for activities for the indigenous banks. Would you be disposed to agree with it?—If he means that some of the field is taken by other banks, then he is perfectly correct.

1080. He says "On the one hand we have handicaps. In our activities of export and import business we cannot have a look in. On the other hand, we find that the whole system is laid out in such a manner that we cannot compete with the indigenous banker who works much more economically than the bank at present." Are you disposed to agree with it?—It all depends on the place of working. In a place, say like Bombay, or Calcutta, there is no question of sufficient business, as he puts it. Whether the indigenous banker is there or not, it all depends on whether business at a profitable rate is obtainable or not.

1081. Barring the ports, in the urban and rural areas, is it true that the indigenous banker can always work more cheaply than any other joint stock bank, or Imperial Bank or an exchange bank?—Yes, that is true.

1082. Therefore, to that extent the indigenous bank suffers on account of the indigenous banker?—The indigenous banker will not be able to lend moneys at a cheaper rate than the bank.

1083. Because his resources are limited?—Yes.

1084. Therefore, if his resources can be strengthened, that will be an assistance to the Indian masses?—Then he will be competing with the

Indian banks and later on as soon as he becomes stronger, with two or three persons he will form a joint stock company or a district joint stock bank.

1085. You know banking in India has come down from generation to generation and you know also the westernised banking. Do you see any difference between the fundamental bases of the two systems of banking?—Yes, banking is more or less based on credit and the westernised banking as administered here in India is based on visible assets. That is the main difference.

1086. Why do you say in India? Is it not so in the western countries?—What I have seen in western countries is that the banks work more on credits than on visible assets.

1087. Do we understand you to say that the European banks work in India on different basis?—Yes.

1088. So, there is a difference in the method of working?—Yes.

1089. Out of these two which do you think is better?—The one that is adopted by all the countries of the world that are in a prosperous condition and that is, the system based on credit. That is real banking. Everywhere in the world it has been done like that. But the present difference is on account of the fact that the foreign banks having first taken the position and not having come in touch with the Indians, they had possibly to adopt this way of business.

1090. You think that what is required here is to introduce the old indigenous method, that is, to advance moneys on one's respectability and his position and also the weight he carries with the society?—That is the way in which the Western banks are doing their business.

1091. Finally, Mr. Pochkhanawala, I will read out to you what one of the witnesses has said under the heading of "Finance of Foreign Trade". That witness says: "The financing of foreign trade in India is at present an exclusive function of several non-Indian exchange banks of various nationalities, with their head offices situated abroad. These banks are very strongly organised against other banking agencies and their enormous capital resources make it impossible for all but an equally formidable institution to enter the field of exchange business which the established banks have come to regard as their privileged sphere of business. The non-Indian character of these banks precludes the possibility of bringing their actions into line with the dictates of national interests and has naturally created a bias against the children of the soil conferring some distinct advantages on the non-nationals carrying on either export or import trade in India. The difficulties confronting the Indian traders are directly traceable to this bias and differential treatment accorded to various sections of the commercial community. The committee of the Chamber have received information from some members that without confirmed bankers' Letter of Credit from abroad, no credit facilities are available from any important banks in Calcutta". Does it represent your views?—Yes, it supports my views.

1092. *Chairman*: Talking about the indigenous bankers and the indigenous banks, I would like to ask you some questions. Some of the Provincial Committees have stated that subject to certain restrictions it may be possible to make arrangements which will enable them to provide

a link betwen the other banks and the masses. If that link is established, is it likely to affect in any way the development of banking proper in India? I am asking this question as it arises out of the statement made in the Punjab where, as Lala Harkishan Lal pointed out, there are only 60 people of this class now left. They say if there is no development, they will gradually be driven out of their business. What is your opinion on this point?—Is it because of the want of development of the joint stock banks?

1093. *Lala Harkishan Lal*: Not only one reason. There are others. The question of co-operative banks, the method of transportation by rail, etc.

Witness: I think it may be due to this reason. These indigenous bankers having a small capital must have been charging a higher rate of interest. As the rates go down, some of these bankers may feel inclined to give up the trade of advancing moneys and take up to some other business.

1094. *Chairman*: It has been mentioned in the Punjab Report that as these indigenous bankers find the reduced rates of interest quite insufficient, they have given up indigenous banking and taken up other trade. But what is the remedy?—If the system that has been suggested by us is adopted, they would be able to make a large turnover. Suppose a man has got Rs. 50,000 and he earns 12 per cent. He will get the facilities of discounting his bills of Rs. 40,000 or Rs. 50,000 and he can re-invest that money by lending at 6 per cent., he will be making the same profit in his business. If this facility is given to them, the position of the indigenous bankers would be improved.

1095. That will enable them to continue their business?—Yes.

1096. Will that affect the growth of the joint stock bank?—The joint stock bank will be giving and receiving money from them.

1097. You said in one of your answers that these indigenous bankers may eventually be absorbed into the joint stock bank. How can it be possible?—Possibly when the joint stock banks have made sufficient progress in towns, they may go to villages and form similar banks in which the indigenous bankers will be interested.

1098. I do not know whether Mr. Ramadas Pantulu would put you this question. But I would still ask you whether they will start competition with the co-operative banks?—There is so much scope for them. There is sufficient scope for indigenous bankers and also the co-operative banks.

1099. You do not think that the organization of the indigenous bankers as an unit under the Indian banking system with affect the development of other joint stock banks or the co-operative banks?—Yes. I do not.

1100. You said that in the western countries banking is based largely on credit. Do you mean to say that it is based on personal credit and not tangible credit?—Personal credit plays an important part in the business of the bank.

1101. *Chairman*: What do you mean by 'an important part'? In Europe and America would a bank usually lend money to anyone of its clients simply on personal security, unsupported by tangible assets?—Yes, to deserving parties; if they did not to deserving parties, that would not be banking.

1102. Do you think in India that is more difficult?—It is more difficult.

1103. *Mr. Ramadas Pantulu*: I understand that Mr. Lamond read out a statement this morning and on the strength of it asked you a few questions?—As I have already said, I know very little of the co-operative movement.

1104. Mr. Lamond in his statement has said that with regard to fluid resources, the Imperial Bank do not now agree to give accommodation upon co-operative paper and that they are going to withdraw the concession in five years. But from the note he circulated to you he did not tell you the conditions under which the Imperial Bank are now giving credit. Are you aware?—No.

1105. *Chairman*: Mr. Ramadas Pantulu, Mr. Pochkhanawala has already confessed that his knowledge of the co-operative movement is not sufficient to supply the Committee any useful information. Most of your questions ought therefore to be reserved for the Imperial Bank representative when he comes before us.

1106. *Mr. Ramadas Pantulu*: I quite appreciate it, Sir, I am only asking Mr. Pochkhanawala as a banker whether the conditions laid down by the Imperial Bank are quite safe or not, from a banking point of view. I do not invite his opinion on any matters relating to co-operative movement. The Imperial Bank has taken sufficient precautions in giving accommodation in the past. It now gives us over-drafts on these conditions:

(i) interest is payable quarterly at a flat rate of 6½ per cent. per annum, calculated on daily debtor balances;

(ii) the cash credit should be utilised only as fluid resource to cover deposits or short term loans repayable within a year;

(iii) as a general rule, the cash credit will not be allowed to an amount exceeding the owned capital of the central bank concerned;

(iv) the central bank concerned should, in addition to the promissory note executed by it, furnish collateral securities in the shape of promissory notes of unlimited liability credit societies in the case of district central banks, and promissory notes of district central banks in the case of the M. C. U. B.;

(v) the actual value of the collateral securities furnished should be in excess of the cash credit sanctioned by at least 33⅓ per cent.;

(vi) each central bank should forward to the Imperial Bank every quarter a list of promissory notes lodged as collateral securities, showing the amount outstanding on each promissory note together with a certificate to the effect that the promissory notes lodged as collateral securities are in order. The list and the certificate are verified every half-year by the Deputy Registrar concerned, and the certificate of each verification is forwarded to the Imperial Bank through the Registrar;

(vii) such of the promissory notes lodged as collateral securities as have become three years old, or are discharged, should be substituted by fresh promissory notes.

These are the conditions as investigated by the Townsend Committee; and under so many safeguards the Imperial Bank have given us accommodation up to 54 lakhs only.

Mr. Lamond: That was the position at the time the Townsend Committee reported in 1927.

Mr. Ramadas Pantulu: You have not taken any co-operative paper since then. Do you think that the Imperial Bank runs any great risk, after having heard all the conditions which I have just read to you?

Mr. Lamond: These conditions are now withdrawn.

Mr. Ramadas Pantulu: We have not asked for a relaxation of those conditions. With regard to overdues Mr. Lamond has not given any consolidated figures for central banks.

Mr. Lamond: I will read out to you a short account of the Tinnevelly District Bank:—

"Dewan Bahadur S. Kumaraswami Reddiar, M.L.C., thanked the Joint Registrar for his suggestions and said that it was useless to depend upon Unions for collections. In 1929 out of arrears of Rs. 3,50,000 only Rs. 16,000 had been collected. At that rate it would take centuries to collect all overdues. Even the remedy of the Joint Registrar he thought, would not be of much benefit, but something had to be done. He felt strongly that a Government officer should be entrusted with the collection instead of panchayatdars. In these days of demand for Swaraj it was a disgrace to them to be unable to manage their affairs properly.

"The Tinnevelly District Board had invested large sums of money in the District Bank, and unless the Bank was kept in a safe condition so as to retain the confidence placed in it, the Board would have to withdraw their money. He appealed to them not to allow things to drift to disaster, but to do something to help the collection of overdues."

Mr. Ramadas Pantulu: I am talking about the position of the Co-operative central banks, and in this connection I would just read out to the Committee what the Madras Provincial Banking Enquiry Committee have to stay.

In paragraph 355 of their report, they say:—

"The credit so made available at a flat rate of 6½ per cent. was to be utilised for short-term loans and for the fluid resources of those banks. The losses made by central banks from the rural credit societies whose pronotes were thus pledged have been entirely negligible; with one or two rare exceptions of trivial sums no dues from unlimited liability credit societies to central banks have been written off. It must therefore be taken that these pronotes are good security. That they are less readily realised in a crisis than trade bills or Government paper has not been disputed but they are probably more readily realisable now than they were a few years ago, for the proportion of short term loans is steadily increasing."

In view of the findings of the Townsend's Committee and the Madras Banking Committee, which I have just read out to you, Mr. Pochkhanawala, do you still adhere to the answer you gave this morning to Mr. Lamond?

1107. *Chairman*: When you made that statement to Mr. Lamond, your opinion was given more or less *ex parte*?—Yes.

Now, Mr. Pochkhanawala, on behalf of myself and on behalf of this Committee I thank you very much for all the trouble you have taken to appear and give oral evidence before us for two whole days in spite of your present bad health.

Mr. Pochkhanawala: I thank you, Mr. Chairman, and the Committee members for the courtesy shown to me during my evidence and for giving me a patient hearing. In spite of my ill-health I have appeared before you to do my duty to the cause of Banking in India whose interests I have always at heart. In support of the statements in the memorandum submitted to your Committee I had to place before you certain facts and figures about the Exchange Banks, particularly some which may be regarded as unpleasant, but I need hardly assure the Committee that I bear no ill will to them. I would have failed in my duty if I had not represented the case of Indian banks, especially those under Indian management. It is this connection of mine which has compelled me to make a frank statement without reserve before you of all that I have heard and all that I feel about the complicated problem which is entrusted to your care.

FOURTH DAY.

Wednesday, the 20th August 1930.

PRESENT:

1. Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E., *Chairman.*
2. Sir PURSHOTAMDAS THAKURDAS, Kt., C.I.E., M.B.E., *Vice-Chairman.*
3. Mr. R. W. BUCKLEY.
4. Mr. MANU SUBEDAR.
5. Dr. L. K. HYDER.
6. Mr. W. LAMOND.
7. Mr. F. V. RUSHFORTH.
8. Lala HARKISHEN LAL, Bar.-at-Law.
9. Mr. JADU NATH ROY.
10. Ch. MUKHTAR SINGH.
11. Mr. G. K. DEVADHAR, C.I.E.
12. Mr. RAMADAS PANTULU.
13. Mr. D. P. KHAITAN.

Mr. V. K. ARAVAMUDHA AYANGAR, C.I.E., *Secretary.*

Mr. R. P. MASANI, *Joint Secretary.*

Messrs. Shivpratap Joshi, Keshavdev Nevatia and Begraj Gupta, representatives of the **Marwadi Chamber of Commerce, Bombay,** were examined.

(Evidence was tendered partly in English and partly in Hindi.)

1108. *Chairman*: You say that adequate supply of finance is of vital necessity for the growth and development of industries. It has been suggested that there are other factors as important as the supply of capital. Have you considered those factors also?—The protection granted to the industries by the Government is one of the factors.

1109. Is that the only important factor? We have been told that there are other factors besides this.—Another important factor is the sufficiency of capital.

1110. Therefore, your view is that if the finance were forthcoming and Government did afford protection to any extent to any and every industry, industries would flourish?—Certainly.

1111. And that state of affairs would be realised even if skilled labour, technical knowledge and practical experience were wanting?—If the field is created, then these things will be forthcoming.

1112. How can the field be created without skilled knowledge and labour?—In course of time. When the field is created, the energies of the people will naturally be diverted to the industrial side.

1113. Is it your opinion that in the first place facilities should be provided for capital and that Government should also grant protection before skilled labour and technical knowledge are available? Is that your real point?—Without adequate finance and protection industries cannot flourish.

1114. Do you seriously mean to say that there is no field for any sort of industry in India? Have we not got cotton mills in India?—The cotton mills are there, but they have not got adequate protection.

1115. I am not going to discuss here the question of protection to any industry. What I want to ask is whether the cotton mill industry has been thriving in several parts of the country?—The cotton mills in the mofussil have also their financial difficulties and therefore cannot work so well as they ought to.

1116. Have they not been making profits?—They do make some profit, but it is not adequate.

1117. Then your point is that without protection there is no possibility of the industry flourishing. In other words, you want Government to provide for what according to the people who are running the industry is considered to be adequate profits?—The profits at present are not adequate.

1118. Therefore, the criterion for deciding what should be the adequate profits should be the opinion of the person or the company running the industry. Is that not the point?—The companies that are running for the present are not getting as much profit as they ought to.

1119. Therefore, is it your view that there is no use having an Industrial Bank until the Government of the country gives adequate protection to the industry?—Industrial banks are even now necessary to finance the existing industries which can run even without protection, but whenever necessity arises, protection must be given.

1120. Therefore, you do not consider protection to be as vital a matter as sufficiency of capital?—We consider both are important.

1121. If they are equally important, and if arrangements are made for making capital available through an industrial bank, how can the object be achieved?—If protection is not forthcoming competition will remain as it is.

1122. Therefore adequate finance by itself provided by the industrial bank will not be of any use?—The industrial bank will help those industries which are not faced with foreign competition.

1123. Is it the view of your Chamber that there are many industries of that sort that can be floated in India?—There will be a few at any rate.

1124. *Sir Purshotamdas Thakurdas*: Can you name one or two such industries as require finance irrespective of protection?—I cannot think of any at present, but cottage industries such as handloom industry require finance.

1125. *Chairman*: When Japan started her Industrial Bank in 1900, had she committed herself to any definite policy of protection?—Japan did not feel the necessity then on the assumption that she being a free country could introduce protection whenever she wanted.

1126. Are these two things linked together as you are trying to make out?—Japan did not think it necessary to link up the two when they started their Industrial Bank.

1127. *Sir Purshotamdas Thakurdas*: In fact, do you mean that they did not enforce protection when they started the Bank in the hope that they could have protection whenever they wanted?—That is so.

1128. *Chairman*: But you know Japan had not made itself quite clear to herself whether she was for discriminative protection or for free trade when she started the Industrial Bank?—That is so, but competition was not so keen then as it is now.

1129. *Dr. Hyder*: Do you know whether the policy of discriminating protection is at present in force or not?—It is in force in one or two cases, but it is not quite so adequate. For instance, in spite of protection granted to the Indian cotton mill industry the market is flooded with British goods owing to Imperial preference.

1130. Are cotton piece-goods manufactured in England produced in this country?—Yes.

1131. That answer is based on the facts of which you have full knowledge?—Several of our Indian mills produce fine cloth. However, we have not much technical knowledge on the subject.

1132. Do you want industries to be started in this country only when Government gives protection to particular industries?—Whenever protection is wanted, it must be given.

1133. Who is to decide whether a particular industry requires protection or not?—It can be decided from the fact whether an industry is making a good profit or not, and that can be decided by a process of investigation.

1134. Do you know that at present the Government of India are maintaining a more or less permanent body called the Tariff Board?—Yes.

1135. Do you know their functions?—Their duty is to report to the Government of India whether a particular industry requires protection or not.

1136. Are you of opinion that the Government should grant protection without consulting the Tariff Board and that the Tariff Board should be abolished?—The Tariff Board is necessary, but their recommendations must be carried out by Government. Recently, the President of the Tariff Board said that owing to the present mentality of Government the Tariff Board could not do anything.

1137. *Chairman*: My questions were directed to the fact that capital was the only necessity. Then the witnesses brought in the need for protection before industrial banks were started. If there were a democratic form of Government in this country the chances of getting protection may be difficult because there is not only the point of view of the industry but the consumer should also be taken into account. I am not at the present moment discussing the action or want of action of the present Government. That being so, if protection plays an important element in this matter then my point is, is there much use in having an industrial bank?—That is the reason why I referred to the system in Japan.

Therefore am I correct in assuming that the scope of operations of the industrial banks which you are contemplating must be limited?—The field of course will not be limited, but it will not be of much advantage unless protection is also given side by side with the industrial bank.

1138. You yourself said a little while ago that it is not possible to start any big industries without protection. If this is so, am I right in assuming your position that the scope of your industrial bank would naturally be limited?—The field for new industries will of course be limited, but the existing industries will be benefited.

1139. If it is not possible to secure protection for all the industries that you require, would the provision of facilities for additional finance in any way improve the situation?—We require both, additional finance and protection.

1140. Can you mention any existing industry which is suffering from want of capital in that direction?—There are several industries which suffer for insufficiency of finance, such as cotton industry.

1141. With regard to the cotton industry your complaint is also want of adequate protection?—Want of finances also.

1142. *Mr. Manu Subedar*: If the managing agent is not a strong party or for some reason has lost his financial standing then is it not very difficult for any cotton concern to get finance from banks on the security of the company alone?—Yes it is so.

1143. *Chairman*: Does not that difficulty arise from the position of the industry? The fact is that it is not in a position of producing an adequate return. Does the difficulty for obtaining the capital arise from this cause or is there any other reason?—That is one of the reasons.

1144. What are the other reasons? Can you tell us?—One more reason is the weakness of the managing agents. If the managing agents are not strong enough, it is very difficult for them to get moneys.

1145. Now, I will come to specify my point. Supposing this particular mill was getting good profits, would not some other agencies come forward to provide the finances?—But then they would have to pay heavy rates of interest.

1146. Apparently after paying heavy interest, they will be producing good returns. Is it not?—If there is such an industry, it is all right.

1147. You say that the public do not give any encouragement when a group of bold individuals resolve to start an individual concern. Is this due to the fact that industries are started by private individuals and not as a public joint-stock company, or does the difficulty exist even in the case of joint-stock enterprise?—There is such a difficulty in both the cases.

1148. You say that in the case of a joint-stock venture, after the initial capital has been raised and the industry has been started the problem of securing additional capital soon crops up. What is the additional capital required for?—Working capital.

1149. If it is for the working expenses, why can they not get accommodation or advances from banks—from Joint-Stock Banks on the security of their outturn?—We do not get as much finance as is necessary. We do get a little finance.

1150. It was suggested the other day that there would be no difficulty of getting working capital, if adequate security were furnished. What are your views?—Suppose there are bales worth Rs. 5,000, we cannot get a loan for that amount. We may get only for Rs. 3,000.

1151. Does it mean that the bales of cotton which you refer to are not considered by the bank while lending moneys to be an adequate security for Rs. 5,000?—Yes.

1152. Your idea of having the Industrial Bank is that you think that the industries will get finances for the working expenses even though the amount may not be fully secured?—At present the finances are available on liquid assets. If an Industrial Bank is started, it will take into consideration also the block.

1153. Is it your intention to include in the scheme of the Industrial Bank that the Industrial Bank will advance moneys for working capital on the security of the immovable property, that is block?—We say that the Industrial Bank's experts will exactly value the position of the industry and they will give finances not only on the liquid assets but on the whole concern.

1154. *Mr. Khaitan*: What he says is that the block will be considered by way of margin?—Yes, block will be treated as margin and we will get the full amount on the liquid assets.

1155. *Chairman*: You say that debenture capital is drawn largely from indigenous bankers. Can you tell the committee what, in your opinion, are the reasons for debenture issue not being popular with the general public?—Most of the industries have not been very successful and people feel very shy of investing in them.

1156. But indigenous bankers do not feel shy in taking these debentures, even though the industry—I may call it a particular factory—may not be working successfully?—An indigenous banker being a local man knows more about the position of the factory than the public outside.

1157. Are you aware of large issues of debentures of a mill or of any industrial concern being taken by any indigenous banker?—Most of the debentures which are issued are taken by the merchants.

1158. By merchants do you mean to say Joint Stock Banks?—No. But even those Banks also take.

1159. Can you supply the committee confidentially with instances of industrial undertakings which have been refused facilities by the Imperial Bank of India recently?—No. We cannot give you any instances. Rather we do not wish to give instances.

1160. Not even confidentially?—It is rather a personal matter and we do not wish to give instances.

1161. My point in asking for this information is that you have made such a statement and if you give the information confidentially, we can pursue the matter with the other parties. You must realise that refusing to give the information confidentially would mean to some extent weakening your case. You say in your memorandum "They are stiffening up their bank's policy". Can you give us instances?—It is a fact, but we do not wish to give instances.

1162. Can you tell the committee what, in your opinion, this tendency is due to?—It may be due to depression.

1163. Does the Imperial Bank demand more security for giving advances than it used to do in the past?—They do.

1164. *Mr. Manu Subedar*: Do they want security or more margin?—Yes, they want more margin.

1165. *Sir Purshotamdas Thakurdas*: Do you mean that if a certain security is worth say Rs. 30,000 owing to depression it is valued at a lower figure and that if the concern wants more money, they ask for more security?—Yes, that is the margin.

1166. *Chairman*: That is not called "stiffening up"? There is a difference in the valuation?—The Bank's valuation is somewhat lower than our own valuation. For instance, if the cotton is at Rs. 210 they will value it at Rs. 200 and over and above that they will require certain margin.

1167. Has the Bank followed that arrangement throughout in the past or is it their recent tendency?—Whenever there is a depression, the Bank does like this. This complaint is a very recent one and we think it is due to depression.

1168. You say that joint stock banks advance money strictly against produce, raw materials or such other easily realisable securities and to a very small extent on the general security of the industry, *i.e.*, I take it on the security of land, buildings, plant, machinery, etc. You yourself say that the deposits of joint stock banks are of short term and that it is a source of real danger to the bank if these deposits are invested in immovable property. Do you not think that for floating expenses a bank may legitimately require the industrial undertaking to give security of produce raw material, or other easily realisable assets?—The Banks do not get long term deposits and therefore they cannot do so.

1169. You say that in some cases in Bombay managing agents provided the finance on consideration of being appointed agents for buying raw material and selling or distributing the products of the industry concerned. Have you anything to say on the working of this system and whether it is advantageous or disadvantageous to industries?—It is not advantageous.

1170. Will you kindly give your reasons?—It is more costly.

1171. You say that special floating capital requirements are to a certain degree supplied by Ruling Princes, indigenous bankers and merchants. Can you tell the committee what you mean by special floating capital requirements?—In certain cases it happens that when an industrial concern is completed, it is found that more funds are required for its improvement, and the capital which is required for the extension and the improvement will be called the floating capital.

1172. That capital will not be a floating capital. Will you call it floating capital or block?—Yes, floating capital. It is repayable earlier than block capital.

1173. Can you tell the committee what are the terms on which finance is given by ruling princes, indigenous bankers and merchants?—Comparatively, the rate is higher. We have to pay a very high rate of commission to the intermediary party in arranging the loans.

1174. *Mr. Manu Subedar*: Have you to pay this commission every time when the loans are renewed?—No.

1175. *Chairman*: Can you give roughly any idea of the rate of interest, taking the commission into consideration?—It is 2 per cent. or 3 per cent. higher.

1176. *Sir Purshotamdas Thakurdas*: Do you think that such finance is more costly than the finance obtained from the banks?—Yes.

1177. And therefore the terms are more stringent?—Yes.

1178. You say that the Imperial Bank of India which is in a position to undertake industrial banking in a certain measure is prohibited from doing so by law. Do you approve of the prohibition?—So long as the Industrial Bank does not come into existence, we do not favour it.

1179. *Mr. Manu Subedar*: Please ask them this question again.

1180. *Chairman*: Do you approve of these prohibitions?—No, they should be removed.

1181 *Sir Purshotamdas Thakurdas*: Is it because you would like the Imperial Bank to be able to give finance at a cheaper rate than it is at present available?—Yes.

1182. *Chairman*: In paragraph 6 of your memorandum you refer to the fact that the usual rate of interest of Banks on loans and advances to industries is generally the bank rate and that in some cases it is even higher. Is it your intention that the Industrial Bank proposed by you should make such loans and advances at rates lower than the Bank rate?—When it is busy season the rates go from 1 per cent. to 2 per cent. higher. We want that the Industrial Banks should give us finance at the Bank rate.

1183. Is it 2 per cent. higher?—Some times it is 2 per cent. higher. But generally it is 1 per cent. higher.

1184. Your statement now is quite different. In your memorandum you have put only 1 per cent. higher than the Bank rate.—It is not our grievance. We want to make the position quite clear as to how they are getting the finance.

1185. If the Industrial Bank lends you money either at the Bank rate or at 1 per cent. above the Bank rate, will you consider it to be sufficient for the purpose?—The Industrial Bank should not charge a rate higher than the Bank rate. Whenever the Bank rate goes very high, the Industrial Bank must not charge that higher rate.

1186. Therefore, in some cases the Industrial Bank should lend money at a rate lower than the bank rate?—No.

1187. *Mr. Khaitan*: Sir, I understood them to mean that in the slack season the banks give advances at the bank rate; in the busy season when the Imperial Bank rate goes up, then the rate of interest on which money is advanced also goes much higher. That operates very harshly on the industry; therefore the Industrial bank should not charge a higher rate of interest than the Imperial Bank.

1188. *Chairman*: You say that in Germany, France and Japan the respective Governments have in certain cases themselves contributed from State coffers a substantial part of the capital. Can you kindly tell us what cases you have in view and the nature of the State contribution?—Some Japanese banks have informed us that State help is given. Besides we have read about it in books.

1189. Then you should be able to tell us the nature of the contribution.—Government purchase shares.

1190. You give as your reason for your preference for a single Industrial Bank for the whole of India with a limited number of branches in industrial centres to a number of Provincial Banks of the type the fact that the latter is not practicable in the existing conditions of this country, specially the financial position of the Provincial Government. Is it your view that under present conditions it will be more practicable for the Central Government to find 15 to 25 lakhs a year than for each Provincial Government to find, say 1 to 2 lakhs a year? What are the other conditions you are referring to?—Yes, the Central Government can find the money. Instead of starting so many banks in the provinces, a central industrial bank should be started for the whole of India.

1191. So, to that extent you qualify the statement you made?—There is no need to modify that.

1192. You want to start an Industrial Bank with an initial capital of 3 crores. Can you tell us how you have arrived at this figure, particularly

because with reference to certain questions asked by me earlier you admitted that, to start with, the scope of operations of the Industrial Bank would be very limited?—By providing at the rate of 30 lakhs for each province.

1193. Do you think it is adequate?—Judging by the field for industrial development, it is not adequate; but it can be supplemented later on.

1194. In view of the annual expenditure which Government may have to meet in connection with the Bank, do you intend that Government should have any control over its management? It has been suggested in this connection by another witness that Government should have two representatives on the Directorate of the Bank with the right to veto any loan if both agree. What are your views on this suggestion?—The directors should be elected by the Assembly.

1195. Will they all be members of the Assembly?—They may or may not be from among the Members of Assembly, but they should be elected by the Assembly.

1196. *Mr. Manu Subedar*: According to the present constitution of the Government?—If the Finance and Commerce Departments are transferred to the Ministers, then Government can send their representatives direct.

1197. *Chairman*: That means that the Government must undertake to meet this money year after year without having a voice in ensuring themselves that the money was being properly spent?—The money spent by the Government is public money after all. We do not think any rigid control is either necessary or advantageous. Veto must be applicable only when the experts do not favour a particular scheme and the loan is granted by a narrow majority.

1198. Would these experts be servants of Government or of the bank?—Servants of the bank.

1199. Therefore, would that control at all be effective? That is, Government should veto only after these experts, who being servants of the bank must naturally yield to the wishes of the bank, say that a loan should not be given?—We are not keen on the experts being appointed by the bank.

1200. You were talking about the constitution of Government. It may happen that the development of industries in the provinces is wholly brought under the control of the local ministers, while the executive Government at the centre may not be responsible to the legislature. How would your scheme about a central industrial bank work under those conditions? Even now the development of industries is a transferred subject in the provinces. It is possible that under the new constitution the powers of the ministers may become greater, while there may be no change in the central Government in the matter of responsibility to the legislature. Under those circumstances, how would your scheme work?—The Central Government can work in co-operation with the Provincial Governments as at present.

1201. My point is that the ministers will be responsible to their legislatures, while the councillors in the Central Government will not be responsible to their legislature?—It will all depend upon what constitution is brought into force. We think that under the new constitution the Central

Government should also be responsible to the legislature. Even if that does not happen, the scheme can be made applicable with certain modifications.

1202. *Lala Harkishen Lal*: Banking at present is a central subject. Would it then become a transferred subject?

1203. *Dr. Hyder*: Agriculture is at present a transferred subject and the provincial ministers do work in co-operation with some organisation at the centre. Would such a system be workable in future should there be a very substantial measure of transference of power in the provinces and no transfer of power at the centre?

Chairman: I would not put that question, since it is wholly constitutional.

Mr. Manu Subedar: Sir, I understood their answer to be that their present scheme is based on the belief that there will be substantial transfer of control; but should it not happen, the scheme could be worked with a few modifications here and there.

1204. You say that an Industrial Bank should be started with a capital of 3 crores which may later be increased to five crores. Do you contemplate that the bank should in addition issue debentures to increase its capital?—If it becomes necessary, the Bank may issue debentures.

1205. Do you intend that your Industrial Bank should accept deposits for the public:—

(*a*) for periods not shorter than 3 years;

(*b*) for periods shorter than 3 years?—

They must take long-term deposits.

1206. Would you impose any restrictions on the operations of your Industrial Banks' financing? Would its loans be confined to expenditure in block or would you allow it to grant loans to meet working expenses under certain conditions? Would it entertain any proposal for the grant of a loan to a company until the latter has secured a certain amount of paid-up capital?—Only when a certain amount of paid-up capital has been secured should they think of lending out.

1207. Have you any idea of what the amount should be?—50 per cent.

1208. You say that there is discrimination in favour of the foreigner and against the Indian in the matter of facilities for financing foreign trade. It has been suggested by one Indian banker that banks in India have no source of information to determine the credit of their clients and that the clients do not produce their balance sheets to enable the bank to determine their financial position. Have you, therefore, anything to say to the suggestion that this apparent discrimination is probably due to the fact that the European houses and merchants furnish balance sheets to the bank, while the Indian merchants and houses do not do so?—We think that even if Indian merchants showed their balance sheets, they would not get the facilities which the European merchants at present enjoy.

1209. Can you support this statement by any example?—There are instances, but we cannot name them.

1210. You say that exchange banks finance foreign exporting houses for moving goods from upcountry to the port and that similar facilities are

not available to Indian exporters. It had on the other hand, been contended by some witnesses that Indian joint-stock banks are subject to keen competition from exchange banks in financing such internal trade. Can you give the Committee any idea of the extent to which Indian joint-stock banks finance the internal trade of India?—The Exchange Banks only favour foreign trade at the expense of inland trade. Indian merchants do not get such facilities from Indian joint-stock banks.

1211. In regard to the financing of inland trade up to the ports, you say that there is great competition between the joint-stock banks and the foreign exchange banks. If that is so, it does not bear out your particular grievance?—But the fact remains that Indian merchants do not get financial facilities.

1212. Even if the goods are locked in the warehouse as securities?—Yes.

1213. And do you say that the Indian joint-stock banks do not provide finance even if the produce was pledged as security?—They do make advances, but the pity is that they have not got the warehouses nor the other requisite resources.

1214. We were told by one prominent Indian banker that in regard to this business because of the competition of the foreign exchange banks they are not able to do much?—It might be so.

1215 Can you tell the Committee what in your opinion are the reasons why the Indian joint stock banks do not help the Indian exporters in providing facilities for the movement of goods from up-country to the ports?—Because they are not in a position to do so at present.

1216. *Mr. Khaitan*: What you are thinking of is the competition of the Indian merchant with the European merchant?—Yes.

1217. Do you suggest that the foreign merchants trading in India get facilities from the exchange banks at much better terms than the Indian merchants can possibly get in the Indian market?—Yes.

1218. And, therefore, do you want to convey to this Committee that the Indian merchant finds it difficult to compete with the European merchant in the business with regard to proper banking facilities?—Yes.

1219. *Lala Harkishen Lal*: What I understood the witness to say was that the exchange banks help the foreign trader very much in the matter of financing and movement of goods while the Indian trader finds it difficult to get such a good accommodation.

1220. *Mr. Buckley*: I think the Exchange Banks Association in their memorandum have stated that they do not advance moneys at the ports against goods up-country. I think my friends on the other hand have in view what the Japanese Banks are doing in regard to this matter. The witnesses in their written memorandum have stated clearly "If a foreign export house receives intimation in Bombay that his agents have purchased goods up-country, he immediately approaches an Exchange Bank which advances to him a substantial portion of the purchase value of the goods up-country". So the position is quite clear. They are evidently referring to the dealings of the Japanese Bank in Bombay. So far as I know, the Exchange Banks do not do so, at any rate, certainly not in Calcutta in connection with the jute trade.

1221. *Chairman*: The Indian banks are concerned only in financing goods up to the port and the exchange banks finance the trade from the port to the shipping destination?—We think that if Indian banks do exchange business also they can help the foreign trade of the country.

1222. Do the Indian banks finance exchange business at present or not?—They cannot do so properly at present. Supposing I am an exporter. I will purchase goods up-country and send them to Bombay for export. When the goods reach Bombay I would like to export them straightaway without depositing the same in the banks' godowns and paying extra cost for the same. But this process of work which entails the actual export from the stage when the goods have reached the port, up to the point when the goods are delivered at their destination is done by the Exchange Banks and the Indian banks do not finance this business.

1223. *Mr. Buckley*: But who prohibits the Indian banks from doing that business?—Because of competition and the lack of facilities they are not able to do so. We want that Indian banks should have facilities similar to those enjoyed by the Exchange Banks to-day or that the Exchange Banks should offer to their Indian constituents the same facilities as they are offering at present to their European clients. Either the indigenous banks should do exchange business or the foreign banks should give facilities to the Indians.

1224. Is it not a fact that Exchange Banks in places like Amritsar do buy export bills of Indian merchants drawn on foreign countries?—I have no idea of conditions up-country.

Lala Harkishen Lal: What happens is this. The Indian joint-stock banks finance exports from the mandi up to the station from where goods are exported. Now there is a blank from the railway station to the port and that blank costs money to the Indian merchant, while in the arrangement of the Exchange Banks with their European customers there is no break. That is the position.

1225. *Chairman*: Cannot an Indian joint-stock bank, say the Central Bank of India, fill the gap?

Lala Harkishen Lal: That is a point for us to consider. Possibly it could be done if they could get the bills of lading themselves.

Chairman: Can you tell the Committee what part is played by the Imperial Bank of India and by the indigenous bankers in this connection?—The Imperial Bank takes the hundis of merchants up-country. They provide funds there on *darshini* hundis and the indigenous bankers act as commission agents also. Generally speaking, the Imperial Bank finances the indigenous bankers in this way.

1227. Who finances more, the Imperial Bank or the indigenous banks?—The Imperial Bank finances to the extent that they accept the hundis, but the financing done by the indigenous bankers is greater.

1228. Therefore, if we contemplate a scheme of preserving the indigenous banker, the best remedy would be in the direction of persuading him to reduce his interest charges. Is that so?—Yes.

1229. But what about the Exchange Banks? Do they charge lower rates for that purpose?—They advance money and charge interest only from the time the goods are purchased.

Mr. Buckley: The witnesses are under the impression that the Exchange Banks as a rule give advances in the ports against goods purchased up-country. That, I say, is not the case. As I have already said, only the Japanese Banks do such business in the Cotton trade. What we do in Amritsar, for example, in the shipping of skins is that we discount the hundi drawn in Amritsar to cover the cost of transport up to the port.

Lala Harkishen Lal: Mr. Buckley is talking of Amritsar, but what I understood these gentlemen to mean is that they do not even get what may be called a floating credit from the exchange banks and therefore they have to get their finance from various parties.

1230. *Mr. Lamond*: When the Japanese cotton firms send their agents to buy cotton, they inform the Japanese banks that they are going to buy cotton at a certain place and ask them to open credits for whatever amounts they require. Japanese agents up-country draw bills on the Japanese Bank in Bombay, rail the cotton to Bombay where it is held until it is shipped to Japan. Then the Japanese Bank discounts the bill on the Japanese Bank in Japan. Other exchange banks do not give these facilities in export.

1231. *Lala Harkishen Lal*: Mr. Buckley thinks that they advance moneys on goods. It is not so. They buy goods after having received finances from the Exchange Banks either on security or a letter of credit.

Chairman: That is what I am going to find out.

Lala Harkishen Lal: You may enquire whether they get the finances on the goods mortgaged or not.

1232. *Chairman*: You have listened to what Lala Harkishen Lal has said. In view of that do you wish to stand by your statement or do you wish to modify it?—We stand by our statement. I may give one example. Suppose a man buys cotton at Khandwa. He buys cotton from his own money or with money borrowed from somebody. With actual money he buys cotton. It is not an advance from any banks or by anybody. When he has to buy cotton further, what does he do? The Bank discounts the hundi but while doing so the Bank takes care to see the strength of the party and his limit. A Hundi is drawn on his Bombay branch or on his commission agent at Bombay; they get money and again buy cotton. That cotton is sent by rail to Bombay. When the goods reach Bombay, the commission agent gives the railway receipt to a bank and thus gets his Hundi discounted in the bank.

1233. *Sir Purshotamdas Thakurdas*: Would I be correct in saying that when you are dealing with this question you do not mean about an Indian exporter or Indian middleman who carries cotton to Bombay?—Exporters are also there.

1234. What you are complaining about is about the Indians who buy cotton in up-country and sell it in Bombay?—Yes.

1235. But you have not mentioned anything about the Indian exporter who exports directly?—We say there are some.

But there are not many. Take the case of Khandwa. A man buys cotton with his own money. Then the ginning and pressing take place. Then the cotton is pressed into full pressed bales which are afterwards sent to the railway station. Then he discounts a bill with the Imperial Bank or any exchange bank at Khandwa. There you have free competition available between the Imperial Bank, indigenous banks and the Indian

bank, whoever discounts the drafts. The cotton comes to Bombay and the commission agent pays for the hundi by borrowing from some banks. You quote an instance of the Japanese Banks. What you mean to say is that you have to require finances three times whereas the Japanese exporters require only once.

1236. *Chairman*: Have you got some other instances with regard to dealings of other export houses except the Japanese houses?—We think others also get finance in this way.

1237. Can you name, for instance, some individual firms?—Ralli Brothers, Volkart Brothers. We think they are getting the same facilities from the exchange banks.

1238. *Sir Purshotamdas Thakurdas*: They are much bigger concerns than an average Indian banker, so they may be getting or may not be getting facilities. They may have been doing business with their own money. Are you very definite on that point?—No. Our up-country clients say that all these firms get finances in this way.

1239. *Chairman*: You say that preferential rates for conversion of rupees into sterling and other foreign currencies and *vice versa* are understood to be given to foreign traders as compared to Indian traders. Can you kindly supply the committee with any facts and figures to support this allegation?—It is a fact. We have been informed by some of the members of our Chamber that this sort of thing is going on, but we have been asked by them not to disclose their names.

We really want to pursue the question. It is said that preferential rates are given by exchange banks to non-Indian customers as against Indians. We are pursuing this because this allegation has been made. If you are not willing to supply full information confidentially, you must realise that the committee's work in investigating matters is bound to be impeded.

1240. *Mr. Manu Subedar*: Can you not supply the information without naming the persons?—No.

1241. *Chairman*: The other day one of the Indian witnesses showed us even documents in a confidential way, and therefore we are pursuing the matter.—We are not in a position to give you this information.

1242. *Mr. Manu Subedar*: You can give the information without disclosing the name of the persons. That will help us to find out to what extent the allegations are correct.

Chairman: Mr. Manu Subedar, I am not prepared to agree to that suggestion. The committee should have the actual instances.

Sir Purshotamdas Thakurdas: I do not think you can press them to give the information.

Witness: We say it is quite natural that if there is a man from our own country and there is a man from other country, we shall give preference to the man from our country.

1243. *Chairman*: That is another matter. You say that exchange banks demand higher margins in the case of Indian traders for opening of credits. Can you tell the committee what margin is required in the case of Indian and non-Indian traders respectively?—Generally, banks ask for a margin of 33 1/3 per cent. As far as we have come to know, non-Indians have been given credits without any margin at all, or

some get credit only on 10 per cent. or 15 per cent. margin. Here the position is quite different. In the case of Indians the margin is 33 1/3 per cent. but in the case of non-Indians there may be nothing.

1244. In the case of non-Indians it is also generally 1/3rd margin or is it not?—As far as we know, it is lower in their case.

1245. *Mr. Manu Subedar*: Can you tell us whether the credit given is on documents or not?—It is the documentary credit we refer to.

1246. *Chairman*: You propose the imposition of certain restrictions upon the foreign banks so as to protect indigenous joint-stock banks and to make the former modify their present policy of indifference to Indian interests. Will not the effect of such restrictions be to antagonise the foreign banks instead of conciliating them and making them more mindful of the interests of Indians?—The imposition of certain restrictions will, we think, be helpful to Indians.

1247. Do you know that Japan started a fresh venture in foreign exchange in the year 1880-1882? Up to that stage there the foreign exchange transactions were entirely in the hands of the foreign bankers. Have you any knowledge if at that stage Japan did impose any restrictions as you contemplate to secure your object?—We have no knowledge of them.

1248. You say that a strong Indian exchange bank should be established either by floatation of a new concern or by conversion of one of the existing Indian banks. It has been pointed out by one Indian banker that to open a branch in London and to maintain it up to style and on correct lines, the institution should be in a position to sacrifice about Rs. 60,000 per annum for at least three years and to meet unforeseen losses resulting from want of practical experience. He has also added that for the success of the institution, the co-operation and good-will of the Exchange Banks are also necessary. He has further pointed out that to expect a branch to be self-supporting within three years of its existence would be too optimistic in view of the strong position of the exchange banks and the very narrow margin on which the branch must work to attract business. Can you tell the committee whether this consideration weighs in your mind so as to modify in any way the suggestion you have made?—No.

1249. How are you going to secure the co-operation of Exchange Banks?—I think if there are restrictions on the exchange banks, similar to those imposed in other countries, they will serve the purpose.

1250. Do you want those restrictions to fall in line with those of the other countries?—Yes, because that will help us.

1251. You say that the rates charged by Port Trust authorities in Bombay for storing imported goods in bonded warehouses are very high. Have you any suggestions to make with a view to reducing these charges?—We have no specific suggestions to make at the present moment. This subject should be discussed by a committee of experts. There ought to be a comparison made between the rates for guidance. That will give an idea whether the rates are really high.

1252. Do you want it done by a sub-committee or this committee?—By any committee, either this or a sub-committee.

1253. *Sir Purshotamdas Thakurdas*: You know that godown rents in Bombay go up and go down in accordance with supply and demand. In one year the rate may be one and in another year quite different. How

can you alter it? Instead of having fixed Port Trust charges do you like that they should vary from time to time?—Yes.

1254. Even though it turns out to be dearer?—We do not think it will be dearer.

1255. You say that Indian farmers have no holding power and have to part with their produce at very low rates below world parity. It has, on the other hand, been pointed out by some of the Provincial Committees that it is dangerous for the ignorant peasant to hold his produce, especially cotton, the prices of which are subject to wide fluctuations due to world factors. Have you any observations to make on this suggestion?—We do not agree with the view. We say that in spite of the fluctuations the holding power is necessary. If an agriculturist loses his holding power, the prices will go down in comparison with the world prices.

1256. *Lala Harkishan Lal* was on the Punjab Committee and he says that committee has been told that this power would be detrimental to the interests of the agriculturists?—What we say is this. There is a man who wants to hold on, but owing to want of money he has to sell. Therefore we say that the holding power should be there.

Lala Harkishan Lal: What we feel is that there is a tendency during the last few years of the prices going down and the people who came before us as witnesses said so. Our advice was no doubt non-committal because we had not facts and figures before us.

1257. But do you suggest that, therefore, the holding power should be there or not?

Lala Harkishan Lal: The present witnesses have taken a very long view, say of 25 years. We have taken the view of a few years. They are thinking of their business about 25 years hence and we take the view of recent years. So, there will be a difference in these two cases.

1258. *Chairman*: If the Government were to provide the agriculturists with the warehouses as is mentioned in your statement, then they may perhaps take the risk of holding their produce. That is what you say?—Yes.

1259. *Mr. Mukhtar Singh*: In the Punjab report they say about the capacity of holding and not the holding power.

Chairman: Capacity of holding and holding power are one and the same thing.

Mr. Khaitan: Perhaps, Mr. Mukhtar Singh may not agree with the Punjab Committee.

Chairman: That is a different thing.

1260. *Mr. Ramadas Pantulu*: The Madras committee and the Bombay committee have taken a different view of the matter. It is quite possible.

Chairman: I am simply referring to the point because Lala Harkishan Lal stated that the prices have been continuously going down and this holding power if granted, will naturally result in incurring losses.

1261. *Chairman*: You say that some warehouses may be established and worked with the assistance and under the control of Government. It has been pointed out by one Provincial Committee that a large measure of Government control would hardly conduce to the popularity of the

warehouses and that overhead charges in such cases would also be too high for the producer or trader. Have you anything to say on this point?—The godowns should be recognised by the Government.

1262. With reference to your observations regarding the establishment of warehouses with Government assistance, will you kindly tell the Committee what sort of Government assistance you have in view?—Government should, wherever possible, finance these godowns.

1263. It has been suggested that one formidable difficulty in the way of the establishment of these warehouses is the variety of crops grown in India and the difficulty of standardisation. Do you agree to this suggestion and if so, have you any remedies to suggest?—Standardisation should be introduced wherever possible. Certificates should vary according to the nature of the goods stored in the godowns.

1264. *Chairman*: You have given a definition of the word 'bank'. If the object of restricting the use of the word 'bank' is to protect the public, especially in the matter of deposits, do you not consider some provision is necessary for regulating the business of firms and individuals that receive deposits?—We do not consider it necessary so far as native firms are concerned.

1265. You are not in favour of licensing joint stock banks?—No, we are not in favour of that.

1266. You say that a bank should not commence business until 25 per cent. of its subscribed capital is paid up. Would you also fix any minimum for subscribed capital in order to ensure the strength and soundness of the bank?—One lakh at least.

1267. You say that a foreign private banking firm or individual should not be termed a bank and should be prohibited from taking banking deposits from the public. Can you tell the Committee what firms or individuals you have in view?—Certain foreign firms, are taking deposits, such as Messrs. E. D. Sassoon and Company, and the Japan Cotton Company.

1268. You propose that Indian indigenous bankers who are private firms carrying on banking business should be allowed to continue their business without any hindrance or restriction but suggest that foreign private banking firms and individuals should be prohibited from taking banking deposits from the public. Will you kindly tell the Committee what your reasons are for making this discrimination?—The only reason is that the deposits paid to indigenous bankers and private companies are used only for the benefit of Indian trade and industry, while the deposits paid to foreign banks are generally used to benefit foreign countries.

1269. *Dr. Hyder*: I want to know whether the Indian indigenous bankers have been losing ground steadily, for instance in Rajputana and Marwar?—The business has gone down considerably.

1270. Are there still big indigenous bankers in that part of the country, like the Jagat Seth?—There are, but they are not having flourishing business. They make money from other sources but not much from banking.

1271. *Chairman*: You say that no foreign bank should be permitted to receive banking deposits from the Indian public unless and until it satisfies certain conditions. Supposing that foreign banking companies do not conform to these conditions and are not allowed to receive deposits, are you sure that the deposits now attracted by them will all be diverted to the Indian banks?—Most of them will be diverted.

1272. It has been suggested that such restrictions on foreign banks instead of advancing the interests of the Indian people will rather withdraw from them the existing facilities in regard to foreign trade and to that extent prejudice their interests. Have you anything to say against this suggestion?—We think that foreign banks and foreign merchants are trading in India for their own profit.

1273. You complain against the step-motherly treatment meted out to Indian traders by non-Indian exchange banks. Can you give the Committee some specific instances of such treatment?—We cannot give any specific instances.

1274. You say that any application by a shareholder for instituting criminal proceedings against a bank should be permitted only if the court after a preliminary enquiry is satisfied that a criminal proceeding is warranted. Have you considered the effect of this suggestion on the confidence of the public in the bank, that is to say, will not the approval of the court for launching criminal proceedings be taken by the public to be a *prima facie* proof of fraud leading to disastrous results, though actually the allegation cannot be considered to be proved until the criminal proceedings are over?—We had in view at the time only such instances in which there were not sufficient grounds for prosecution. But now we consider that there will be no necessity for adopting such a procedure.

1275. You say that the main causes for the diminution in the currency of *muddati hundis* are the high stamp duty and the fact that joint stock banks have ceased discounting such *hundis* as freely as before. Can you tell the Committee what this tendency on the part of the joint stock banks is due to and what steps should be taken to encourage the greater use of these *hundis* by the joint stock banks?—We think that if it is proposed to connect indigenous banks with the Reserve Bank, the hundi business will increase considerably. We recommend that the stamp duty on *muddati hundis* should be abolished and that when the Reserve Bank comes into existence, these indigenous bankers should be connected with it.

1276. What is your proposal regarding the linking of these banks with the Reserve Bank?—If the stamp duty is removed, there will be many endorsements on the *hundi*. Now, for instance, if we give or take deposits, say, for two, three or four months, it is on a current receipt which we cannot easily negotiate. If the stamp duty is removed, the current receipt will be converted into a *muddati hundi* in which case the banks will be willing to discount it. That is why we recommend the removal of the stamp duty.

1277. Do you mean to say that with the removal of the stamp duty, the *muddati hundi* business will again prosper?—Yes.

1278. You say that until such time as the Reserve Bank is established the Imperial Bank should be prohibited from opening branches in the mofussil. It has been suggested that even after the Reserve Bank is established, Government should regulate the opening of branches in the mofussil with a view to ensuring that a place which is already provided with adequate banking facilities is not chosen by any bank for opening additional branches. Do you approve of the suggestion?—No, we do not approve of the suggestion.

1279. You put forward certain proposals for the appointment of shroffs as agents of the Imperial Bank during the period the Imperial Bank continues to act as the bankers' bank. Have you any modifications to suggest in your proposals to suit the period after the Reserve Bank is started?—If the Reserve bank is started, it will be the bankers' bank and the branches of that bank will be established in different provinces. In that case there will be no need to appoint shroffs as agents of the Reserve Bank. We have already recommended this in paragraph 45 of our written memorandum.

1280. You say you do not favour the idea of licensing the indigenous banks. In paragraph 45 you say that there should be, along with a schedule of joint stock banks, a schedule of shroffs to whom certain recognised financial facilities should be given; and then you say that the shroffs who may conform to the standard fixed therefor should be included in the aforesaid schedule. Does not that amount to licensing?—They can only be licensed for the purpose of getting discount facilities from the Reserve Bank.

1281. *Mr. Buckley*: In answer to a previous question: can you tell the Committee what margin is required in the case of opening of credits in respect of Indian and non-Indian traders respectively?—you stated that in the case of Indian traders the exchange banks demanded a margin of 33 per cent. Another Indian Chamber has put down a percentage of 10 to 15. In view of that do you wish to modify your statement?—That may be for confirmed bankers' credits.

Mr. Buckley: I think that should be made clear.

1282. *Chairman*: Are you referring to irrevocable credits?—No. We are referring to the confirmed bankers' credits.

1283. *Mr. Buckley*: Therefore the answer should be corrected to bring out that 33 per cent. is for the confirmed bankers' credit.—Yes.

1284. *Mr. Buckley*: You say that no foreign banks should be permitted to receive deposits from the Indian public. I think you have given this question very careful consideration. It has been suggested that if exchange banks are debarred from accepting deposits, they will have, or rather they should have, to bring funds to India from the foreign countries in order to finance the foreign trade in India. Is that so?—Yes.

1285. How will they bring those funds from foreign countries, say, from London?—They will bring them when they require them.

1286. In what form will they bring them out?—By selling exchange.

1287. To whom will they sell exchange?—To importers.

1288. But the balance of trade is in favour of India; and if they were all bringing out monies at the same time, to whom will they sell then? One bank could not sell to another; the Government remittance programme is limited; the foreign trade amounts to 600 crores; to whom will they sell?—If they want to bring out money, let them bring out gold.

1289. I put it to you that during particular seasons, you know the exchange banks advance monies to merchants on the security of their produce and you also know of a season when overdrafts are liquidated by the sale of bills. At one time therefore the banks all become sellers

and at this time of the year the exchange rate would be driven to upper gold point. Is that so?—Yes, it might be so.

1290. It has also been suggested that these funds which the exchange banks bring out to India together with their Indian deposits, which it is thought could be diverted to Indian banks, would be very difficult to employ suitably. What is your opinion? When new industries are opened, they could be financed.

1291. It has been suggested by one prominent Indian banker that the co-operation and goodwill of the exchange banks is necessary for Indian joint stock banks to do exchange business in India. What do you think of that satement?—We do not think that there will be any difficulty about it.

1292. *Mr. Devadhar*: You said that profits earned by the Mill industry at present are not adequate. Could you kindly give me some idea as to what you consider adequacy of profits for a concern like this?—Say, a return of 8 to 10 per cent. on the capital investment.

1293. You have complained against the penetration of the foreign exporters' agents into the innermost agricultural centres where they purchase the goods for export to foreign countries directly from the village farmer. Now, in view of this would you like the penetration of the co-operative movement in the interior and thus secure the profits of the foreign exploiter to itself?—We have no objection to the suggestion at all.

1294. I think you mentioned somewhere that the Ruling Princes are one of the sources for the resources of a bank. Could you give us an idea of the proportion of the resources that they could depend upon for financing industries in this country?—They finance large amounts.

1295. I should like to get an idea of their investments as compared with the Imperial Bank of India or the Indian indigenous banks. Would you put them on a par with these?—Not more than what the Imperial Bank does. They finance mostly in their own States and to some extent in British India as well, such as Bombay.

1296. Is that a dependable quarter available for all?—No.

1297. In answer to the Chairman, I believe, you said that the facilities that should be extended to shroffs from the Imperial Bank should be made available to the Co-operative banks working in different centres. You do not want any competition, do you? If there is a co-operative bank which meets the requirements of local conditions, then you do not feel there is any necessity for appointing others?—If the requirements are more, then there will be no objection.

1298. If the Imperial Bank were to decide to open a branch or agency at a place where there is a co-operative bank, would you like the agency work to be given to that bank as you would give to an indigenous shroff? —We have no objection.

1299. You say that the "provincial branches should be connected with and should act as feeders to the joint stock banks and bigger indigenous banks. These in turn should be linked with co-operative banks, smaller district shroffs and village mahajans". Would you kindly tell us how it will operate? Is it your idea that they should receive deposits and finance these shroffs and bankers?—The shroffs and bankers should have some privileges to get their *hundis* discounted, etc.

1300. *Mr. Manu Subedar*: With regard to the industrial bank, you say Government should guarantee the funds of the bank. Do you mean the share capital or the debentures?—Only share capital.

1301. Do not you think that if the share capital is guaranteed by Government, the management would be more or less reckless?—A few Directors will be nominated by the Government and they can be expected to do well.

1302. But you do not want the power of veto to rest with Government?—Not necessarily.

1303. Do you agree with the view propounded by some witnesses that it would be better for Government to guarantee debentures?—We do not concur in the suggestion. We think that the bank will not be able to attract sufficient capital and so it should be guaranteed by Government.

1304. Then you said that the Industrial Bank should not lend at more than the Bank rate. You said further that the industrial banks should accept deposits for more than 3 years or more or less. Taking also their administrative expenses into consideration as also the rates at which they are able to attract money, do you mean to say that they will be able to advance loans at almost about the Bank rate?—We think that they would be able to lend almost at the Bank rate.

1305. But then, as I said, they will have to bear the cost of management of the bank and also provide against any possible losses, etc. Do you think that they will be able to attract long term deposits at smaller or higher rates than the short term ones?—They will have undoubtedly to offer higher rates. But if the bank will accept short term deposits also, then it will be all right. There cannot be any hard and fast rules in regard to this. They may, of course, be permitted to lend at slightly higher rates than the Bank rate, in view of the fact that the borrower will have first to make a profit with a view to enabling him to repay his loan to the Bank in stated instalments.

1306. With regard to the Bank rate you have suggested that the rate should not be increased by 1 per cent. but should be raised only by ½ per cent. You also think that if the Bank rate is increased too frequently, the industries and trade of the country will suffer?—Yes, it will undoubtedly be a great hardship if it remained at a high level almost throughout the year.

1307. Who should fix the Bank rate?—The Reserve Bank, when it is established.

1308. At present Government interferes in the fixing of the bank rate. Do you advocate the same interference should continue? Government interferes in fixing the bank rate at present, because Government controls the currency policy of the country.—We do not approve of Government interference at all. They interfere at present only for the purposes of manipulating the exchange rate.

1309. You said that the policy of Imperial Bank opening branches has failed. You know the Imperial Bank was asked to open branches as a means of expanding banking in this country. Would you briefly indicate in what way they have failed?—Because these branches found it difficult to make both ends meet, owing to heavy overhead charges. Moreover, they collect deposits from up-country and utilise the same in other ways in big cities.

1310. Where was the money which you say they are now collecting from up-country in the form of deposits, going till the time such branches were opened in the mofussil?—The indigenous bankers were attracting all that money as deposits, but now that has gone out of their custody into the hands of the Imperial Bank.

1311. *Chairman*: Is it the general custom for indigenous bankers, who are shroffs, to take deposits?—Yes, they do accept deposits.

1312. *Mr. Manu Subedar*: You know that the Imperial Bank is prevented by its charter from doing some sort of business which the other bankers can. Do you think the failure of these branches of the Imperial Bank was due to this condition?—We do not think so.

1313. Do you consider the Imperial Bank to be the best machinery for extending banking in this country?—We do not consider it to be so, for this reason that they are monopolising banking activities of the indigenous bankers in the mofussil and they also get Government money without interest.

1314. Therefore you consider that the Imperial Bank instead of improving the state of affairs has made the position worse?—That is our view.

1315. You say that foreign merchants dealing in exports of Indian commodities are able to get finance from their bankers on better terms than Indians. How is it so?—Because these Exchange banks encourage their own Nationals more than Indians.

1316. Don't you think it is hardly a matter of favour but a matter of standing and credit of the concern or the person?—It is not so. They do not extend the same facilities to Indians.

1317. You say they would be more disposed towards Europeans than Indians?—Yes, certainly.

1318. I note you said you were in favour of Indian banks starting exchange business. Do not you think that if the existing foreign exchange banks were made to register themselves as Indian joint stock banks and compelled to work under the Indian laws and regulations, it would be better?—Yes, that would be better

1319. You think that it would be better to do so than the system of licensing?—Yes, but those who would agree to be licensed might preferably be licensed.

1320. How would you restrict the public deposits from going to the foreign exchange banks?—It should be done by law.

1321. Do you think that such deposits as go into the hands of the foreign banks would go into the hands of Indian banks and that the latter would be able to finance the foreign trade of the country as the exchange banks are doing at present?—Yes.

1322. Do you know that an Indian bank is doing exchange business at present?—Yes, only to a very small extent.

1323. You know that it holds a certain proportion of sterling securities which they pledge in London and against which they borrow and use such funds in India for their exchange business. Do you think similar methods can be employed by other banks?—Yes, if they think it will work well.

1324. You propounded a scheme of linking up of shroffs with the proposed Reserve Bank, to provide for greater *hundi* facilities?—Yes.

1325. Do you want these shroffs to be linked up directly with the Reserve Bank or through the joint stock banks?—It will be better if arrangements could be made to link them up directly.

1326. You know one of the provisions of the Reserve Bank would be that it should not do commercial banking but should do re-discounting business. Supposing, instead of shroffs lending money the Reserve Bank was made to lend the money and the shroffs stood as security for that advance by the bank, would that be a safe proposition?—I see no objection to the proposal.

1327. *Mr. Manu Subedar*: If we take that view, what will happen is this. The Reserve Bank will be at the top of the Imperial Bank. So the Imperial Bank becomes a leading bank in respect of the Joint Stock Banks. But do you not think that if the Imperial Bank goes to the Reserve Bank they will get a somewhat better treatment than the shroffs?—No. I am talking about the limit and not the rate? The limit of the Imperial Bank may be much larger. There should be no distinction in the rates.

1328. Supposing the Reserve Bank was prohibited from dealing with the shroffs directly. What do you say then?—You mean to say that the Imperial Bank will be able to do much business. We say they will not be able to do more business than the other banks.

1329. Supposing there is a particular bank at present which does bill business. It has bills worth Rs. 2 crores. If that bank is allowed to rediscount them with the Reserve Bank, that bank may have 4 crores and therefore the rate they will get will be higher?—We say if the same facilities are given to the indigenous bankers, there will be no difficulty at all.

1330. *Sir Purshotamdas Thakurdas*: In their statement, paragraph 45, they say "The Board are, therefore, of opinion that the proposed Reserve Bank should give the indigenous bankers the same facilities and concessions as to the Joint Stock Banks." Therefore, their intention as far as the rate is concerned, is that the same facilities should be given to indigenous bankers. As regards the limit it may vary according to each one of them, but the rate should be the same.

1331. *Chairman*: I asked you "Is it customary for the shroffs to accept deposits?" You said "Yes". You come from Rajputana and you should know what custom prevails in the United Provinces. They say, "As far as banking is concerned, most of them will be unwilling to accept deposits. They regard it as derogatory to their dignity." We can also quote the same thing from other Provincial Committees' reports. The Shroff thinks it derogatory to his dignity to accept deposits. Is it so?—No, they do not consider it derogatory to accept deposits, but if at any time they do not wish to accept them, they generally lower the rates.

1332. But according to this report it is stated that they do not accept deposits?—We do accept deposits generally.

1333. But here it is universal?—There may be some exceptional cases to the rule.

1334. *Mr. Khaitan*: Do not the shroffs keep *Khata peta* accounts?—Yes.

1335. Can they not receive moneys from the customers and lend moneys to them?—Yes.

Chairman: I simply wanted to know from you what your view is. I did not want to discuss the matter.

1336. *Sir Purshotamdas Thakurdas*: Dr. Jain in his book called "Indigenous Banking in India", chapter III, under the heading of "deposits", Says: "The deposit business which really distinguishes a banker from a mere moneylender is extremely limited in its extent among the indigenous bankers. There are some, mostly goldsmiths, and landlords. who receive deposits and pay no, or a little, interest on them. Some bankers, *e.g.*, the *Sarafi Basna* of the United Provinces, sell *hundis* on themselves and receive deposits for very short periods—a few days—which are payable on demand, but payment can be shifted for several days. For additional capital in times of stringency they do not look to deposits, but arrange with the joint-stock banks. No statistics are available and it is difficult to estimate the amount of total deposits received by the bankers in the whole country, or even in anyone province, just as it is almost impossible to arrive at any accurate or reliable estimate of the total amount of capital invested in indigenous banking in India. The question No. 19 was left unanswered by everyone of those who were good enough to respond to the Questionnaire. Personal inquiries have met with no better results. The following remarks of Prof. Burnett Hurst in regard to the difficulty of ascertaining the income of the bankers reveal the truth and would apply to the estimation of their capital or deposits as well.". After giving those remarks he says "The bankers in India mostly invest their own capital. They do not make it a regular business to attract large sums of money in deposit and lend them at higher rates of interest than what they have to pay on the deposits, thereby earning the difference for the risk and labour.". He does say that it is uncommon to keep deposits.

Chairman: But it has been mentioned in the Punjab Reports and also in the Central Provinces Committee's report that it is derogatory to the dignity of the bankers to accept deposits.

1337. *Dr. Hyder*: Has the mercantile community of the Bombay Presidency, specially the Bombay city, any representation on the Senate, or the committee of colleges or University?—No. There is no representation.

1338. Do you think that the mercantile community ought to be represented?—Yes.

1339. You say in your memorandum that there are very few schools which impart banking education. Can you tell us something more about these schools?—Only accounting is taught in these schools. We think in the secondary schools there should be included in their curriculum books on Indian and English Banking.

1340. What schools do you mean—primary, midddle or High schools?—High Schools.

1341. Have you observed any change in the attitude of banks towards a particular industry in giving a measure of assistance?—No, we have not.

1342. *Mr. Lamond*: You say that the opening of new branches of the Imperial Bank of India should be restricted. Have they not done any good to India at all?—We think they have been of little advantage.

1343. You referred to the purchasing business of cotton at Khandwa. Can you tell me what was the demand rate in Khandwa before the Imperial Bank was opened and what it is today?—The rates vary from time to time.

1344. I am talking about the cotton season?—There were fluctuations in rates before the Imperial Bank was established.

1345. The rate ruling there was eight annas before the Imperial Bank opened their branch and the present rate is only Re. 0-1-6. There is a difference of Re. 0-6-6. Is that not a great advantage?—It was not so much as eight annas before.

1346. I am talking about the cotton season when the money was mostly required. I am mentioning this only to show you that the opening of branches of the Imperial Bank is not to any disadvantage.—The question we discussed was about the profits.

1347. *Mr. Lamond*: Profit to whom? The Bank is doing good to the country. The Bank is providing facilities to the Indian merchants who remove the crop from Khandwa to Bombay and for that they get only Re. 0-1-6 instead of annas eight which was obtainable there?—We do not think there is such a great difference.

Sir Purshotamdas Thakurdas: You may make enquiries and then let us know.

Chairman: Mr. Lamond is saying this from records and naturally it must be a fact.

1348. *Mr. Lamond*: In reply to the Chairman's question you said the banks value the goods a few rupees less than the market value and over and above that there is a margin. This is really done to prevent frequent calling in of margin. Formerly, the margin was 25 per cent. and it has been reduced to 20 per cent. Do you not think that this margin should be kept in the Bank's favour?—What we say is not about the margin kept. We do not get loans for the amount we may require. We may require larger advance which is not given.

1349. *Mr. Rushforth*: You replied to the Chairman's question that the prohibition on the Imperial Bank to undertake industrial banking should be removed until the creation of the Industrial Bank. May I know if you approve of the prohibition or not?—We approve of the prohibition, but we say that those restrictions should be removed until the creation of an Industrial Bank.

1350. You have said that it is a source of real danger to the bank if these deposits are invested in immovable property. Do you not think then that the Imperial Bank will be taking a risk by undertaking industrial banking?—No. They have to take a little risk as other banks take.

1351. If you say that the restrictions should be removed so that the Imperial Bank may undertake the industrial banking, where is the necessity of having a fresh industrial bank?—Our suggestion is that the Imperial Bank will be doing exchange business on the establishment of the Reserve Bank and they will then give up the industrial banking business.

1352. Now there is a question about getting out money to India. If a bank sells remittances to an importer these very rupee deposits which you wish to keep from him will automatically be transferred to him?—How is it so?

1353. By the rupee payment. What I mean is that foreign exchange business is done with rupees, *i.e.*, with deposits. You cannot buy bills with foreign currencies.—

It is a matter for very great careful thought.

Chairman: It is a debatable point. Mr. Rushforth, you may repeat the same question and see if they can give an answer.

1354. *Mr. Rushforth*: Mr. Manu Subedar said that Exchange Banks borrowed money in London on easy terms and brought that out to India. If a bank wants to bring out money from London, it must arrange sales of sterling and receive payment in rupees. The rupees which it would receive represent Indian deposits which you wish to keep in the hands of Indian Banks; if therefore you succeed in keeping Indian deposits from going to Exchange Banks, you ultimately make financing of foreign trade by them impossible. No bank business is possible without deposits?—In that case instead of foreign exchange banks, Indian exchange banks having Indian deposits will get foreign exchange business. What we want to do in this country is this. When the Indian Exchange Bank is established and when their trade balance is in their favour, then whatever surplus remains will be brought out here in the shape of gold and when there is a trade balance against them, that gold will be shipped to foreign countries. That is how the adjustment should always be done.

1355. *Mr. Rushforth*: Although you may import gold your business must be done with rupees. The imported gold must be converted into rupees, therefore what it amounts to is that if you allow only Indian banks to receive rupee deposits, you ultimately restrict yourself to selling your bills only to the Indian banks.—When there is a great deal of business, there will be no difficulty.

1356. *Mr. Rushforth*: There will be more difficulty because there will be less people to handle the business. I am at the moment referring to the actual difficulties of converting gold into rupees. There is another point which arises out of this. Why is it that Indian banks do not freely bring money out from England?—They have got no branches.

1357. Is it not partly because it costs them more, and the difference between the buying and selling rates is largely due to their expenses in London? Now, who is going to pay the extra difference? Probably the Indian cultivator?—Yes, partly.

1358. Therefore your system is going to cost the poor cultivator more. Are you prepared to introduce a system which is going to cost considerably more, either for lack of experience or for lack of adequate facilities, while the benefit to a large extent is going to London? You do not want that?—No.

1359. What I am arguing is that the bigger profit is going to London and not to India.—We think that when the amount of business is considerable, there will be no difficulty.

1360. *Chairman*: Mr. Rushforth is talking more of the initial stages. He is trying to prove that till Indian banks have sufficiently developed, the greater margin of profit will go to London while the extra cost in India will have to be borne by the poor cultivator. In other words, for securing a small benefit, perhaps to one class of community, the people who must subscribe themselves to the temporary disadvantage and loss

should again be the unfortunate cultivators. Is that your idea?—We think that with the increase of business the whole country will benefit, and therefore when the time comes for some sacrifice to be made, all should sacrifice. When the business improves, the Indian people benefit and along with them the cultivator is compensated. If the business is carried on through Indian hands, the charges will be lower.

1361. *Chairman*: Will the reduction in rates be passed on to the cultivator?—Yes.

1362. *Mr. Jadu Nath Roy*: In dealing with the question of finance, you asked for Government protection. What if that protection is not forthcoming?

Chairman: I think they have already answered this question. If there are readier facilities for obtaining protection than now exist, the Industrial Bank might be more useful in starting new major industries; but even if those facilities were not available readily—and they have admitted the difficulties in the way of that—they wanted the Industrial Bank to finance the existing major industries and also small or cottage industries.

Mr. Jadunath Roy: If any protection is given, it is the consumer who is hit.

Chairman: We are not discussing "Protection". I mentioned it only as a possible difficulty.

1363. *Ch. Mukhtar Singh*: In answer to one of Chairman's questions you said that with Government protection more industries will spring up. Do you mean to say that the present fiscal policy of the Government is responsible for the limited number of industries existing at present?—Undoubtedly.

1364. *Chairman*: What reasons have you for thinking that the present fiscal policy of the Government is not in the interests of India?—We think that the present policy is not conducive to the growth of industries, for instance, the high freight charges and the lack of railway facilities for the movement of goods within the country. Then consider the recent circular sent round by the Government in Bombay. That shows that the Government are not sympathetically inclined towards Indian industries.

1365. But that circular has been withdrawn.—It shows all the same how the mind of Government is working. This is not all. Just think of the ruinous Exchange policy, which again is not in the interests of India. As it is, the entire policy of Government is intended to promote foreign industries in the country.

1366. *Ch. Mukhtar Singh*: Is there any method at present to indicate to the Indian cultivator what quality of his raw produce is mostly in demand in the foreign countries.

Chairman: This question is entirely out of the purview of the Banking Committee.

Ch. Mukhtar Singh: No, Sir, My idea is that if the business is taken by Indian merchants the cultivators will know the requirements of the foreign markets better than if the business remains in foreign hands.

Chairman: If you put your question that way and give the reason, it will be intelligible.

1367. *Ch. Mukhtar Singh*: What I mean to say is that at present all export business is in foreign hands; therefore the Indian cultivator does not know what kind of goods are required in foreign countries. If Indian

banks did the business, then the cultivator would know how he could get a better price for his produce.

1368. *Dr. Hyder*: You are assuming a very direct link between exchange banks and the cultivator in the field.

(To the witnesses). Are you aware that what the foreign markets demand of the Indian cultivator is being communicated to him by the provincial agricultural departments?—No, the views of the agricultural departments do not reach the agriculturist; moreover the entire methods of the latter are modelled on western lines.

1369. *Chairman*: I would only like to ask whether the co-operative societies are doing any business in that behalf?—They can and are doing considerable business. But if the merchants knew these things, they would be more useful to the community.

1370. Have the Indian traders who deal with this business now taken any steps to acquaint themselves with the requirements of foreign countries in regard to Indian produce?—Yes, they carry the information to the producer. The exchange banks do not offer sympathetic advice to their clients; no bank does.

1371. What about Indian banks who deal in exchange business? Are they giving advice? Have they started giving advice?—No; but by the transfer of foreign trade to Indian hands, the Indian will know better what is required of the Indian cultivator.

1372. *Ch. Mukhtar Singh*: In your memorandum you say that a particular Indian concern suffered through having advanced money to agriculturists. Can you name that concern?—We referred to the People's Bank in the Punjab. It came to grief because the Government policy was not helpful. Government however took up the cause of the Alliance Bank.

1373. You suggest that the Imperial Bank should do the work of the Industrial Bank till the latter is established. What will be its effect on the joint stock banks?—The Imperial Bank will finance only where finances are required; so no joint stock banks will suffer.

1374. You have said nothing about the constitution of the Industrial Bank.—We recommend the shareholders' scheme.

1375. If the starting of an Indian exchange bank is conceded, will you have any objection to the present Imperial Bank being permitted to take to exchange work along with its present activities, or do you want a separate bank to be started?—We have no objection to the Imperial Bank doing so.

1376. *Chairman*: To that extent you will modify your answer which you made to Mr. Rushforth?—Yes.

1377. You remember, Mr. Rushforth put you the question it being your view that the Imperial Bank should be asked to perform the duties of an Industrial Bank until the latter is established, where was the need for an Industrial Bank separately? You answered that there was the need because you contemplated that the Imperial Bank should perform the duties of an Exchange Bank as well. Now you say that the Imperial Bank can perform the duties of both, an Industrial Bank and an Exchange Bank. May I ask, then, where is the necessity for a separate Industrial Bank?—We have no objection to the Imperial Bank doing both exchange

and industrial work. All the same we must have a separate Industrial Bank.

1378. *Mr. Mukhtar Singh*: Is it not a fact that for the last few years cotton mills in India have been using more and more American and African cotton and the demand of Indian cotton in the Indian mills has considerably decreased and that that explains the difference in prices between American and Indian cotton?—Because the price of Indian cotton was above the world parity American cotton was brought here for the last 2 or 3 years. As for African cotton, it was needed here.

1379. Do you know who manage the Port Trust warehouses?—There are Trustees for the same appointed by Government by statute.

1380. Will the rent realised on the warehouses cover the warehouse charges, etc.?—Not in the beginning, but in course of time it will become self-supporting.

1381. You seem to be dissatisfied with the present method of auditing banks and bank accounts, but still you are not in favour of bank accounts being examined by Government Examiners. How, then, do you propose an improvement in the present system?—The method of issuing monthly statements giving full details will suffice.

1382. Do not you think examination by the Government examiners will add considerably to the credit of the Indian banks, and thus avoid all chances of bazaar gossips believed by the people?—No, not at present.

1383. What machinery do you propose to educate the Indians in the system of indigenous banking?—There may be an optional course of training.

1384. Is it likely that Indian moneylenders would like the idea of being trained in an institution imparting education in indigenous banking?—That is why I said that it might be made an optional subject in commercial education.

1385. Will it not be better if indigenous bankers' schools were privately started by the indigenous bankers and the Government gave them a status by granting them certificates or diploma to their students and also gave financial help in the shape of a grant?—It may be optional. We do not like the idea of starting a special school for banking; if there is a demand in some towns, such schools might be started in those towns with financial help from Government.

1386. Do you oppose the idea of the Imperial Bank starting branches in the mofussil?—Yes.

1387. Are there any special facilities granted by foreign insurance companies which are not granted by the Indian firms? Do not you know that there are special facilities offered by the Bima Insurance Co., and other Companies.—Yes, they do have an advantage over other companies in that they are doing business for a long time and moreover they get better banking business because the bigger companies are largely owned by foreigners with better connections.

1388. *Mr. Manu Subedar*: Have members of your chamber found as merchants, when you deal with the Imperial Bank or the Exchange Banks, if you give any security in the form of buildings or immovable property, the Imperial or the Exchange Banks insist on your insuring them with a particular foreign insurance company. Is that statement true?—Yes.

1389. And is it your experience also that they would not grant you loans if you offer them an Indian policy?—After our protests against this sort of treatment the position has improved a bit now.

1390. *Dr. Hyder*: Do they not pick and choose a few from among the foreign and Indian Insurance companies for insurance purposes?—No selection is made in the case of foreign companies, at all.

1391. *Sir Purshotamdas Thakurdas*: I take it that in the Marwadi Chamber of Commerce the members are mostly Marwadis?—Yes.

1392. And I take it that the Marwadis feel that they have for generations past, if not for centuries, been the bankers in the natural course to the masses of India?—Yes.

1393. The banking business, before the British banks came in, was theirs in common with the Chettiyars, etc?—Yes.

1394. Therefore your Chamber feel that they are particularly fitted to speak with authority having inherited the business from families of bankers?—Yes.

1395. The one effort of your members has been to try and secure at the hands of this Committee the correct position to your community in the banking world of India and to that end you have indicated in your written memorandum what position should be given to the indigenous bankers in the banking world of India?—Yes.

1396. There you have made certain recommendations and in reply to Mr. Manu Subedar you indicated that the position which should be allotted to indigenous banks should be all along the lines of the Indian joint stock banks?—Yes.

1397. In your effort to retrieve your lost position, owing to the apathy of the Government or the public, whatever it be, in answer to the Chairman you said that you were not in favour of licensing these indigenous bankers?—Yes.

1398. Now if you will read your five conditions quoted in your memorandum you will realise that except for the technical term 'licence' you have indicated the same thing. So you won't have any objection to it being termed a 'license' *per se* I suppose?—No, we won't object to that.

1399. Now, you do not mention here that these men should be debarred from receiving deposits?—No.

1400. Your anxiety is that by a statute the Government should not make it impossible for anybody else who does not want to come into this category from receiving deposits. Is that so?—Yes.

1401. In fact your idea appears to me to be that by your putting on your sign-board "Seth Tilak Chand Sakaram, Banker on the Indigenous Bankers list of the Reserve Bank" you will get a certain prestige which will have a good effect on the turn-over of your business?—Yes.

1402. I do not know why you have not added one more condition to your 'five' that these indigenous bankers who receive such facilities from the Reserve Bank would not lend at an extortionate rate of interest of 15 or 20 per cent. per annum? What I mean is that if you are to receive money at bank rate from the Reserve Bank on your *hundis*, there is a duty which you owe to the public of assuring them that you will lend also

at reasonable rates. Is it not?—If the same rule is applicable to the joint stock banks, then we have no objection to that.

1403. I am particularly anxious to get your view point, that you will have no objection to charge only a certain restricted maximum rate, say 2 per cent. or 3 per cent. above the bank rate?—We have no objection to that.

1404. You say that until such time as the Central Reserve Bank is established the Imperial Bank should do so and so. Under item 2 thereof you say "Instead in principal centres of trade and agriculture shroffs of substance and credit should be appointed as agents of the Imperial Bank, one in each place. It would be better if more than one combined to form into a firm". Supposing your view was accepted, then it would mean relief to 162 members of your community, *i.e.*, the indigenous bankers. Is it not?—Yes.

1405. Do you think that this will meet the problem which you have at heart?—I suggest to you that this will not touch the fringe of the problem and in addition I wish to ask you whether appointing one indigenous banker as shroff of the Imperial Bank at one of its branches would not cause jealousy and chaos among the community than bringing about relief?—Yes, it might.

1406. The Imperial Bank has at the present moment got a system of Khazanjis and you know the system is not giving the greatest satisfaction to the commercial community?—Yes.

1407. *Sir Purshotamdas Thakurdas*: They say "the policy of the Imperial Bank should be discontinued.". Supposing at Sholapur the Imperial Bank want to appoint somebody from their staff, do you want that they should not do so but that they should only appoint a Shroff? If that is your intention, then I think you will not get any relief?—We hope that the Reserve Bank may be established and with this view, we make this suggestion.

1408. Regarding the question of *Hundis* and cash credits, I wish to enquire whether it is the opinion of your Chamber that the former have gone out of use slowly because people think that their prestige is not raised. Is that your experience?—It is because the *Hundis* are discounted on a smaller scale, that the cash credits are increased.

1409. Have you any suggestion to make regarding the increase of *Hundis*?—No, there is none at present.

1410. Now, I come to the question of stamp duty. Stamp duty on *Hundis* is provincial source of revenue and as the Provinces are now suffering from want of revenue, it will take a long time for carrying out your suggestion?—They do not get any revenue from *Hundis*.

1411. Why?—They do get revenue from *Hundis*. *Hundis* are drawn to the extent of three to four crores.

Mr. Lamond: In the month of March the Imperial Bank had *Hundis* to the extent of eight crores and odd.

1412. *Sir Purshotamdas Thakurdas*: In view of the fact that the stamp duty on *Hundis* is a provincial revenue and as the provinces will not be prepared to give it up, is there any other suggestion for you to make to the committee?—There was a stamp duty on cheques. It was abolished and the use of cheques has increased thereby. Similarly the removal of stamp duty on muddali *Hundis* will increase the use of such *Hundis*.

1413. It was only 7 lakhs?—Then we say that a fair reduction in the amount of stamp duty may result in a decent turnover in *Hundis*.

Lala Harkishan Lal: There has been a decline in this income. It comes to Rs. 3-2-0 per *Hundi* at the present rate.

1414. In paragraph 44 of your statement you emphasise two points in connection with the Reserve Bank. "(1) It should not be a shareholders Bank." Will you tell us in detail why you emphasise so much that it should not be a Shareholders' Bank?—Because the Controlling Board comes out of the same persons who subscribe.

1415. You object because the shareholders themselves will control that Bank?—Yes.

1416. Therefore, you say "The managing body of this Bank should be truly representative of the interests of the Indian people."?—Yes, representatives selected by the Legislative Assembly.

1417. The inference from this is that in the opinion of your Chamber unless the members on the Directorate of the Reserve Bank are selected by the Legislative Assembly, it would not inspire confidence in the public?—Yes.

1418. Suppose the Finance Department of the Government of India were to come under an elected Minister responsible to the Assembly, will you modify your suggestion?—Yes, this suggestion is made in view of the present Constitution.

1419. In paragraph 22 of your statement you say: "My Board are deliberately of opinion that the following suggestions should go some way in fulfilling the needs of the situation:—No foreign bank should be permitted to receive banking deposits from the Indian public unless and until it gets itself registered under the Indian Companies Act." As you realise it is a very drastic measure and it becomes more drastic when it comes from a commercial body consisting of indigenous bankers—no doubt bankers from inheritance, if I may say so. I know that your Association are not politicians. They are really business men. Then why is it that your Chamber should think it necessary to put such a drastic suggestion?—During such a long period we find that Indians have not succeeded in getting a hold on Indian trade and foreign exchange. As long as the foreign banks are there, Indians will not be able to do so. So, we want that they should be checked and the Indian banks should come into existence more and more. Besides we find that the foreign trade is competing with the internal trade and thus the internal trade slowly passes to the foreign hands. It is due to the fact that the foreign banks are given preference. It is also due to the fact that they are getting Indian money into their hands.

1420. Your argument is that Indian bankers and Indian merchants are driven from the internal trade of the country. Therefore you suggest this step. Your aim in doing so is that if the foreign banks are allowed to get deposits, as far as financing the internal trade is concerned,

you will suffer still more. It is to avoid the Indian commercial community having any further handicap on the share of their business in their own country. I take it that it is not made out of spite?—The proposal is not made out of spite.

1421. I would also draw your attention to a sentence in paragraph 9 of your statement where you say "The result in the matter of facilities of finance is discrimination in favour of the foreigner and against the Indian ". You are not willing to give the names even confidentially of the persons and of the bankers who may have had such an experience. May I know if you have put this sentence in your statement after making sure that the complaint is a true and just one?—No, these are the facts and it is the experience of some of the members of our Chamber.

1422. *Dr. Hyder*: When you speak of discrimination, I may point out that discrimination can be in two ways. The first is that the foreign exchange banks will have nothing to do with the Indian merchants and the second is that there may be discrimination either in the matter of charges or in the amount of credit. Which of these have you got in view?—There is a discrimination in the matter of amount of credit and other facilities.

1423. *Sir Purshotamdas Thakurdas*: All this discrimination was made for such a long time and you feel now that such a drastic suggestion should be carried out?—Yes.

1424: Is there anything else that you would suggest in place of this suggestion?—None.

1425. This will be handicapping the Exchange Banks in doing their business?—We have suggested that a license should be issued.

1426. Will that be likely to give you relief which you have in mind?—We would like to try the system of license.

1427. I have already pointed out that your first suggestion is a drastic one. Is there not anything else which would satisfy you and to which you would like to give a fair trial?—We think it will benefit the country most, if they are prevented from receiving deposits. If another suggestion is required we suggest that the foreign banks should get themselves registered, have majority of Indian Directors and also Indian management. If these conditions are not acceptable to them. they should be given a license only to do business and not for to receive deposits.

1428. *Chairman*: Regarding the financing of the masses I mean financing the rural and urban areas, you feel that if what you have indicated in paragraph 45 of your statement is tried, it will make indigenous bankers stronger and will enable them to give more assistance to their clients and you further are also convinced that all the conditions including the one of maximum rate would not involve any hardship on them?—Yes, we are convinced that the conditions would not involve any hardship on them.

1429. You have been talking about the attitude of discrimination which the foreign exchange banks, pursue towards their non-Indian clients as against Indian clients. Now, would you be prepared to say that so far as you are concerned that you do not adopt any policy of discrimination in favour of the members of your community as against the members of the other communities for the simple reason that you probably know about their business and that you are in touch with them?—We have no policy

of discrimination. But perhaps at times there may be some discrimination owing to our being in touch with the members of our own community.

1430. Then, they may argue in the same way that they were in touch with a certain client and therefore, they felt inclined to give more facilities. I am asking this question because a point has been raised in one of the reports of the Provincial committees that they do make discrimination between the marwadi communities and other communities. I think you said or it has been suggested that owing to the action of government or both you have been ousted from your honoured position which you used to occupy before. Now, in this connection I would refer you to Dr. Jain's book in which he says that the reason why the indigenous banker had lost his position which he used to occupy before the British came to this country was of a different character, that is, he does not blame the Government or the public to some extent. He puts the blame on the circumstances which led to the arrival of the British.

His main point is that all the turmoil in the country arising out the occupation of India by the British made the indigenous banker lose part of his trade. Formerly he used to be the principal banker at the Mogul court. Then, later on he came to be disliked by his customer, perhaps because of his business methods. Now all these factors have been clearly brought out in this book.—We say that trade has suffered on account of exchange banks. Now the writer of this book does not at all touch this point; and I can prove that most of what he has written is altogether wrong. If you wish it, I can later on point out various inaccuracies.

1431. *Chairman*: My point is that the author of this book comes from a family of indigenous bankers. How can he therefore go against the interests of his community?—Our contention is that he is not original in his book. He has only put together the facts that he has collected from other sources.

But he has actually made enquiries from various indigenous bankers, such as Mr. Bishan Narayan Nigam of Cawnpore, L. Balwant Rai of Lahore, Mr. Jagan Nath of U. P.

L. Harkishan Lal: All that I can say is that there is no banker by the name of Balwant Rai in Lahore.

Witnesses: The book contains mostly the opinions of people quite new to the trade.

1432. *Mr. Manu Subedar*: Sir, might we not ask for more detailed views of the Chamber on this point later on?

1433. * * * * * * *

1434. * * * * * * *

FIFTH DAY.

Thursday, the 21st August 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. R. W. BUCKLEY.	Mr. JADU NATH ROY.
Mr. MANU SUBEDAR.	Ch. MUKHTAR SINGH.
Dr. L. K. HYDER.	Lala HARKISHAN LAL.
Mr. W. LAMOND.	Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.	

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Rai Bahadur BANSIDHAR DHANDHANIA, Zemindar and Banker of Bhagalpur was examined. The evidence was tendered in Hindi.

1435. *Chairman*: I take it that you belong to the Marwari community and you are an indigenous banker. Have you been indigenous bankers for generations or were you the first in your family to start this business?—My grandfather started the work in Calcutta and Bihar 80 years ago. In the beginning we dealt in merchandise, and later on took to banking.

1436. For how many years have you been doing banking business?—For about 60 years. We started trading first, then banking and lastly zemindari.

Mr. Buckley: Sir, that shows how very profitable indigenous banking business has been.

1437. *Chairman*: Is it a fact that people like yourself or your ancestors who began initially with trade, have gradually developed into indigenous bankers and zemindars in Bengal, Bihar and to some extent in the United Provinces?—I do not know much about U. P. and Bengal. In Bihar there is a good scope for indigenous banking.

1438. *Mr. Manu Subedar*: Did you start with receiving deposits and then began giving loans?—The man who starts banking business has to lend in the beginning and then through the honesty of his dealings succeeds in attracting deposits.

1439. *Chairman*: Can you tell me for how many years you have been receiving deposits?—For about 60 years. Did you start getting deposits from the very outset?—Yes.

1440. Can you give me some idea as to what is the amount of deposits your firm takes each year?—Between 8 to 10 lakhs.

1441. If you have no objection, could you give us an idea of the total capital of your firm?—It is difficult to say. People think that we have something between 15 to 20 lakhs.

1442. What sort of people place deposits with you?—All kinds. In Bhagalpur even the officials deposit with us besides zemindars, peasants, merchants, etc.

1443. *Dr. Hyder*: Is it exceptional only in Bhagalpur?—No, it is common to so many other places, such as Gaya.

1444. *Mr. Manu Subedar*: Are there many people of your standing who are doing similar business?—Yes.

1445. *Chairman*: You were a member of the Bihar and Orissa Banking Committee. In a unanimous statement made by that Committee, you say, "It will be noticed that the part played by deposits and other outside resources in relation to capital in the financial operations of the indigenous banker is extremely small."—That is so.

1446. According to this statement, to which you are a party, the share of deposits in the capital is very small. From what source is the rest of the finance required drawn?—The major portion of the capital is drawn from Calcutta.

Chairman: It is not my desire in any way to say anything against the claim of the indigenous banker for a proper share in the banking of this country. That I consider to be a most natural desire, and my whole point is to try to get correct information, because in our report we will have to present a complete and accurate picture. I am compelled to ask these questions in view of the recommendations made by the various Provincial Committees.

1447. *Dr. Hyder*: On page 190 of the B. & O. Report, you have said:—"We, however, came across some shroffs in Bhagalpur, the great centre of indigenous banking in this province, who had deposits varying from Rs. 8 to 16 lakhs drawn from an area comprising the neighbouring districts of Bhagalpur, Monghyr and Purnea and from all classes including substantial raiyats and the local European club as well as from the funds of semi-public institutions. But such cases are more exceptional than normal."

Mr. Manu Subedar: I think, Sir, the witness has already answered this question. I asked whether this was general or whether it was an exceptional case; the witness replied that many shroffs were doing similar business elsewhere.

Witness: There are about 8 or 10 persons in Bhagalpur itself, with deposits ranging from 2 to 15 lakhs.

1448. *Chairman*: Are you in a position to give us some names?—In Bhagalpur, Bhudarmull Chandi Prasad. Sovaram Shivdat Rai, Harnathrai Binjraj, Baijnath Jodhraj, etc. In Caya, Sadasukh Bhairolal, also Khazanchi of the Imperial Bank.

1449. *Mr. Manu Subedar*: You have told the Chairman that the deposits which your firm receives are being lent out. If you had more deposits, could you employ them all?—With the present inadequate facilities, it is difficult for indigenous bankers to employ all the money.

1450. Do many people ask for such loans?—Yes. Are you able to accommodate them all?—No, we are not able to satisfy all their requirements.

1451. Where do those people then apply for accommodation?—They are in difficulty; they have to try in several places, such as Calcutta. I know the instance of one Tarak Nath Ghose, a big zemindar, who on account of litigation had to run into debt to the extent of nearly 10 lakhs. He tried his best to secure money, in Calcutta and other places, but could not get accommodation. Then with great difficulty he could borrow, and that too at the high rate of perhaps 7 or 7½ per cent.

1452. In your written memorandum you say that India is proverbially poor and unless block and floating capital are provided it would be impossible to start any industry. Do you intend that the aid of external capital should be sought?—I do not want external capital to be brought to India. If a bank is started with Government help, they will be able to carry on with the aid of their deposits.

1453. I thought you said a little while ago that you are not able to advance moneys to the people who require them because of legal difficulties. You are a banker of some standing. Then how is it you do not advance money to finance the industries of your country?—If I accept deposits from the public at short term and then deposit it in industrial concerns on long term, I will find it impossible to repay my depositors when I get a call.

1454. Then you are not wholly correct in saying that the country is proverbially poor. The money is there and the only question is that an institution should be started for collecting deposits on long term and thereafter using it for the purposes of industry?—What I mean to say is that those who intend starting industries have not got the money to do so, but big people like the Maharajah of Darbhanga invest all their money in Imperial and other banks. And the money that goes into the Imperial Bank and other banks in the form of deposits are not made available for the industries of the country.

1455. *Dr. Hyder*: Is it not a fact that the Maharajah of Darbhanga invests his funds all over India, especially in Bombay?—My point is that he still has more funds in his control which he can usefully invest in promoting the industries of the country. It is only one instance that I have quoted, but there are several other persons and zemindars who have surplus money which they could usefully employ.

1456. *Chairman*: Why do they not invest their money in the industries then?—They themselves do not know anything about the industries and want of confidence in the new industries started is another reason why they do not finance new industries. But if there is Government guarantee or support, then that concern will gain public confidence.

1457. What are the legal difficulties that you are talking of? Is that special to indigenous bankers or is it usual with every body?—If an indigenous banker files a suit in the original court it takes not less than 2 years for the final disposal of the suit. As far as joint stock banks are concerned, the time taken will be less.

1458. Do you mean to say that the court deals partially in these matters?—I do not mean to say that the courts are partial in their dealings, but I might say that they are better inclined towards the Indian Joint Stock Banks and the latter still are a little worse off when compared to foreign banks.

1459. You say that private firms and joint stock banks are also not willing to lend money without taking security of the stock in trade. Do you consider that this attitude is not the only correct attitude that should be taken?—A business cannot flourish unless personal security of persons of standing and position is also taken into account.

1460. Then your point is that the lending bank should not pay so much attention to the tangible security as to the possible personal security?—Yes.

1461. You told me a little while ago that you would not advance against the security of immovable property for fear of a run by your depositors to

withdraw deposits?—Yes, because we are not in a position to get extraneous help either through the agency of Government or other banks. So unless we find other sources of meeting sudden requirements, we cannot advance freely.

1462. I am simply trying to understand some of your statements. Therefore what I said is correct, that these people (private firms and joint stock banks) are fully justified in taking the line they do under the circumstances?—Therefore it is I say that trade or industrial banks should be established for such purposes.

1463. Would you admit that the correct position is stated in the memorandum submitted to us by another gentleman from your Province, *viz.*, the Managing Director of the Chota Nagpur Banking Association. He says:—"Banks are shy to advance anything to support industries because of the want of sufficient and proper security. Presence of risk would necessarily enhance the rate of interest. If by legislation or otherwise the element of risk be minimised, there would be no lack of capital". Would you accept this as showing the correct position?—The Managing Director of the Chota Nagpur Banking Association, whom I know, is not an industrialist and he is over-shy in advancing money to industrial concerns. As a matter of fact the indigenous bankers even are not so shy as he is.

1464. So then the private firms and joint stock banks are precisely in the same position as you are. Is it not?—I will not say the position is precisely similar.

1465. You said something about the Chota Nagpur Banking Association. Now, do you recollect an interview which the Bihar and Orissa Banking Committee (including yourself) had with the Manager of that concern? In that interview the management has said that they are advancing funds to collieries. Is not a colliery an industry?—Yes.

1466. So then your statement about the Chota Nagpur Banking Association was made without proper consideration, is it not?—I was under the impression that the bank was not investing its funds in any industries.

1467. *Chairman*: You observe that brilliant young men with high academic distinction of foreign countries in Industries are being thrown out of employment for want of credit facilities. Do you mean that as new industries could not be started or existing industries could not be developed for want of capital, such men find it difficult to get employment?—Yes.

1468. Do you recognise that without adequate security the industries cannot be started and therefore the men cannot get employment?—Yes.

1469. You refer also to men with distinction in banking in this connection. Can you explain how these men would be suitable for industries?—With the bank there will be some improvement in the industry and then they can get employment.

1470. Your point is really this. If there was a development of industries, development of banking was bound to follow and then these men would manage to get an employment?—Yes.

1471. You say that the Imperial Bank and joint stock banks are loath to cash hundies and bills of exchange. This has already been referred to in the Bihar and Orissa Banking Committee's report and some reasons are given for this state of affairs in that province, such as, want of suitable credit paper, high rates of accommodation and rivalry between Shroffs and

Joint Stock Banks. Have you any suggestions to make to develop the system of discounting bills and hundies?—The stamp duty on hundies may be abolished. If the Imperial Bank discount the market hundies and give facilities, the hundi business will improve.

1472. You state in the Bihar and Orissa Report which you have signed, "Mudatti hundies are rarely documentary and are not acceptable by the banks for the purpose of advance."

Lala Harkishan Lal: To state "documentary hundies" is quite wrong. Those are the demand hundies. If there is a mudatti hundi and the documents—such as railway receipts, etc.—are attached to it, that means documents should be delivered. And, therefore, it will not be discounted. The mudatti hundies would correspond to D/A bills and D/A bills, so far as the railway receipt is concerned, are not in vogue.

1473. *Chairman*: You say selected indigenous bankers should be handed over the management of local Government treasury and Government business. Do you think they will be able to cope with Government treasury work?—Yes, if they are trusted, they will be able to cope with the work.

1474. *Chairman*: Government may trust them after they have found out the exact business and the standing of the man. If they do not trust them, then they will have to give them security?—In the history of the indigenous bankers you will find that out of 100 cases the failures are on a very small scale and that does not mean that they should not be trusted.

1475. That is a question of opinion. But as these bankers very rarely publish their balance-sheets, the Government will naturally require security from these indigenous bankers?—If the Government want to see their balance-sheets, they will produce them.

Lala Harkishan Lal: (*To the Chairman*) Will you kindly ask him whether he knows anything about the Multanis in Bombay and the Shikarpuris in Karachi?

1476. *Chairman*: You heard Lala Harkishan Lal just now. He wants to know whether you know anything about the Multanis in Bombay and the Shikarpuris in Karachi?—I do not know. But I may add that if Government entrust them with the Government business, they will be prepared to give the security as well as they would show Government their balance-sheets.

1477. Are you referring to the Government balance-sheet or his own balance-sheet?—I mean not only the Government balance-sheet but also his own balance-sheet. Besides, they can give security. Even at present the Government treasury is with the Imperial Bank and they give no security.

1478. You must know that the position of the Khazanchi is quite different from that of a Bank?—The position may be quite different now but if these Shroffs are trusted, then their position will be established.

1479. What benefit will the indigenous banker get?—Their position will be secure in the eyes of the public and their business outlook will be increased.

1480. You mean their prestige will be increased?—Yes.

1481. You know that the Imperial Bank are Government's sole bankers. Will you kindly tell the committee if your proposal relates to places where there are no branches of the Imperial Bank or also to places where that

Bank has branches at present?—I mean places where there are no branches of the Imperial Bank.

1482. But at places where there are no branches of the Imperial Bank, there are Joint Stock Banks. Would the indigenous banker receive preference to the Joint Stock Bank in this matter?—That is the wish of the Government, but in this respect I would say it depends on the position. It is not contemplated that any preference should be given either to the indigenous banker or to the Indian Joint Stock Bank.

Mr. Manu Subedar: Sometimes the banker might be more important than the branch of the Joint Stock Bank.—Yes.

1483. *Chairman*: You advocate that the State bank should afford liberal credit facilities to approved indigenous bankers on one signature as is done in Scotland, Canada and other countries. As an experienced banker you will no doubt admit that here again the question at issue is one of degree of confidence. I understand that in the countries you refer to, people to whom banks generally grant advances on personal security keep the bank informed continuously of their financial position by furnishing proper accounts, etc., in some detail. Will your indigenous bankers submit themselves to a similar restriction?—They will be willing to show their balance-sheets if the facilities are forthcoming and this willingness will go on increasing gradually as they find that the facilities are coming forth.

1484. You say indigenous bankers want facilities for realisation of their loans which other banks enjoy. Will you explain what facilities you have in mind? I asked you this on my previous question, but now I want to put the question more definitely. Have you in mind the facilities enjoyed by other banks which are not enjoyed by the indigenous bankers?—I say the same thing what I said before.

1485. Your point is that for some reason or other better facility is given to the banks than to the indigenous bankers?—Yes.

1486. In your reply to question 4 in section 1 of the questionnaire you say that the reasons why banks in India under foreign management do not advance freely in this country for industrial development are broadly speaking their antipathy to Indian aspiration and want of knowledge of the country and the people, while in the case of the indigenous banker the reason is that their resources being generally limited they do not venture to advance money on doubtful security. As a banker of experience, do you support the idea that a bank with large resources would be justified with due regard to the interest of its shareholders in advancing money on doubtful security? What would be your answer to the critic who holds the view that in either case the reluctance to advance money is the doubtful nature of the security offered?—My view point is that one must take risk in proportion to his funds. My idea is that if one has 10 lakhs of rupees and if he risks about two to four lakhs, it does not matter. Because if he happens to lose that amount, he may make it up in other transactions. If a small firm has small resources, that firm will take small risk.

Mr. Manu Subedar: You say the bigger the man the greater is the distribution of risk.—Yes.

1487. *Chairman*: One who is running the affairs of the bank is responsible to the shareholders. Therefore, it must be a matter of discrimination.

It is with him to see whether that risk should be taken or not. Therefore, do you think there is any difference between the operation of a large bank or a small bank?—Yes.

1488. In the Bihar and Orissa Provincial Committee's report it is stated: "Marwari industrial enterprise is helped by support from the Marwari banking community, but non-Marwari owners of oil and rice mills experience great difficulty in borrowing their working capital and either have to pay high rates to money-lenders or obtain loans on somewhat humiliating conditions from the joint stock commercial banks for their day to day requirements." I put it to you that here a preference is given by the Marwari indigenous banker to his community. I put it to you that this is done not by communal considerations but purely on sound banking principle. Because he knows the financial position of the members of his community better than that of the members of the other community, he makes that preference. Will I be correct in making that assumption?—The working capacity of an industrial concern of a Marwari will be better known by the member of that community than by a member of the non-Marwari community.

1489. Would it not be reasonable for a critic to suggest to you that the preference given by these foreign banks to certain classes of their clients also arises from the fact that they feel that their business capacity is better than the business capacity of their other clients?—I say that their view is correct, but the banks should not be too sympathetic to them.

1490. Would it be unreasonable, arising out of this answer, for another critic to refer you to what has been said in the Bihar and Orissa Provincial Committee's report which says: "want of sympathy also plays a part in the position, etc."?—Sympathy is the vital necessity.

1491. *Chairman*: You say that you are in favour of Trade Banks specialising with special trades. Have you any information regarding the working of such banks in any country and of the trades that have been helped thereby?—I do not advocate any special trade banks. I am only referring to ordinary commercial banks.

1492. Then, Mr. Dhandhania, if I may make an observation—and I hope my Colleagues will endorse the statement—that knocks the bottom out of the bulk of your memorandum, for I find that throughout you have been discussing trade banks.

It has been argued before us by some other witnesses that they prefer an Industrial Bank for the whole of India and are against having an industrial bank for each one of the provinces. Could you tell us why you prefer provincial banks to an all-India Industrial Bank?—I am not opposed to an all-India bank.

1493. Do you mean to say that you see no special advantage in provincial banks as against an all-India Industrial Bank?—My point is that there should be some form of organisation whether central or provincial.

1494. You have said in your memorandum that "these banks should be subsidised by Government which would command the fullest confidence of the people". To what does "which" refer?—I mean banks and not Government.

1495. You say that they should be subsidised by Government. Have you thought out what sort of subsidy should be granted?—Government should guarantee the minimum interest on the share capital; Government

can even take out shares. The object is to inspire confidence among the public.

1496. The fact that the banks receive a Government subsidy would enable them to "command the fullest confidence of the people". Is that your point?—Yes.

1497. Have you devoted any thought as to what the constitution of such a bank should be?—I have already expressed my opinion in my memorandum.

1498. You suggest the imposition of certain restrictions on the grant of loan by such a bank while providing finance for industries. Now reading those restrictions (I to VI), do you not think that the bank will not be able to make capital readily available for the classes of people to whom you have referred in paragraph 1 of your memorandum. The conditions that you have suggested are more rigid than those mentioned by other witnesses. I would not say that those conditions are not necessary.

Perhaps, from your experience as a banker of long standing, you consider these conditions important, but they do not coincide with the various proposals you have put forward previously. I suppose you would have no objection if our Committee suggested the imposition of easier restrictions?—No.

1499. You suggest that bank examiners may be appointed by Government or by the Legislative Assembly. Will you explain why you want to bring in the Legislative Assembly in regard to this selection?—In my opinion if Government alone were to appoint these examiners, people would not have the same degree of confidence as they would have if the Legislative Assembly were to select them.

1500. Coming to your own province, would you press for the appointment of Bihari examiners?—No, I do not advocate that; other people may press for it.

1501. You say that foreign firms should be required to deposit sufficient securities with Government of India. If foreign banks deposit with any future Reserve Bank a definite percentage of their time and demand liabilities, will that be sufficient security in your opinion?—It is difficult to say whether that security will be adequate. My point is that some restrictions should be imposed on foreign banks; because my fear is that if they monopolise most of the business, then the Indian banks cannot work in competition with them.

1502. What is the reason for that difficulty? Is it not the fact that they charge a lower rate of interest on advances?—No, the reason is that they receive more deposits and also look to Government for support, while the Indian banks are deprived of both these forms of assistance.

1503. You are not talking at the moment of the Imperial Bank but of the Exchange Banks?—Yes.

1504. What kind of help is given to Exchange banks?—I am not able to say exactly what kind of assistance is given to them. In Bhagalpur we have no exchange banks and therefore I have no personal experience.

1505. On what then is your view based?—On general information received through friendly exchange of ideas.

1506. I thought you meant that they attracted more deposits. Now, will you be surprised to hear that a few days ago an expert joint stock banker said that he had no grievance in the matter of deposits but that it was the advances that he objected to? (If you are not prepared to answer it, we will drop it)—I am unable to understand that man's logic.

1507. This statement was made by an Indian banker of considerable standing.—I do not believe it to be a fact.

1508. Supposing that Exchange banks did not take deposits, what would happen to those deposits? You have already said that indigenous banks cannot work off all the deposits they receive.—With increased facilities, depositors will not have much difficulty in depositing money with Indian banks.

1509. You say that so long as courts do not change their methods you do not want more deposits because you will not be able to use them. If there is no avenue on your part for employing that money and if by getting rid of some agency the present facilities for depositing money now enjoyed by the investing public were curtailed, then naturally those deposits would go back to the hoards as was the condition in India years ago.—I do want that more Indian joint stock banks should be started so that Indian money may be used for Indian industries. If Indian money is diverted abroad, our own industries will suffer. Certainly, India is not rich enough to spare money to benefit foreign trade.

1510. Foreign trade with India or with foreign countries?—With foreign countries.

1511. Do you believe that a substantial part of the money which is deposited with these banks is actually used outside India?—That is my belief.

1512. You give in your memorandum the principal causes of bank failures in India. Can you tell the Committee some instances to which reasons (*c*) to (*g*) are applicable?—The People's Bank is a sufficient example to illustrate my meaning.

1513. Does that support your reasons (*c*) to (*g*)?—From (*c*) to (*e*).

1514. You have got no personal knowledge of any of these bank failures?—No.

1515. You suggest that Government help should be given to reconstruct a bank on the verge of liquidation. Will you explain what kind of help you are contemplating?—Government should study the position of the bank at the time of the crisis, and if they find the position sound enough, they should take over the control.

1516. Do you mean to say that Government should for the time being actually run the Bank?—Yes, through their own agency.

1517. You suggest some concessions should be given to co-operative banks so that they may reduce their interest rates on advances to agriculturists. What concession have you in view?—Since co-operative banks have to receive deposits at high rates of interest, they have to charge high rates of interest. My suggestion is that they should be helped to invest their money at lower rates of interest.

1518. Will not that result in an adverse effect on the operations of the indigenous bankers?—I do not think so, as the rate charged by the indigenous bankers is not very high.

1519. Not so high as that charged by the co-operative banks?—Not so high. High rates are charged by the village money-lender.

1520. *Mr. Lamond*: Do you consider it necessary for the co-operative banks to pay the high rates of interest they do on deposits?—With Government guarantee, they can get the money at lower rates of interest.

1521. Do depositors not think that there is a Government guarantee at the present moment?—They no doubt supervise.

1522. *Chairman*: Do you realise that what you are telling us now may be at variance with what you have already subscribed to in the Bihar and Orissa Banking Committee's report?—I do not recollect all that is put down in the report which was written several months ago. There may be some slight difference in what I have said now and what I said then; but only slight.

1523. Talking about General Banking Organisation you say "One of the ways of doing so (developing and improving indigenous banking) is by establishing greater co-operation between these indigenous banks and the joint stock banks, and this can be brought about by giving these indigenous bankers the status and facilities of joint stock banks and should be recognised by the Reserve Bank and these joint stock banks should discount hundis through parties dealing directly with approved indigenous banks and afford credit facilities to approved indigenous banks on one signature". Would you agree to this proposition that if the status and facilities of joint stock banks were extended to the indigenous bankers they must subscribe to the conditions and limitations which are imposed on joint stock banks?—I do not want all indigenous bankers to be subject to such conditions, but only those who want to get the benefit of being so placed need be included in the scheme. In the long run all the indigenous bankers will be covered up.

1524. I find the following passage in one of the Reports of the Provincial Banking Committees:—

"The decline of the indigenous banker is due to the great development of commercial banking in the Province, and if this development continues it is only a matter of time before the indigenous banker becomes extinct or survives only as a curious relic of an order that has passed away. To attempt to revive him, on a large scale is not, therefore, likely to succeed. His house has collapsed and would have to be almost entirely rebuilt". Strong words those, but what are your views on that statement?—Conditions might differ in that province from which the report emanates, but so far as the Bihar and Orissa is concerned, conditions are entirely different.

1525. So you admit, what is true of your province may not be the same in all other provinces in India?—That is true.

Lala Harkishan Lal: Another point is that Punjab had never been rich in these indigenous bankers because of successive invasions by people like Nadir Shah, Ahmed Shah and others.

1526. *Chairman*: What I am only trying to point out is that conditions are different in different provinces, I am only trying to find out from the witness whether he holds a dogmatic view in regard to these matters or not?—As I have already said, I entirely agree that conditions might be different in different provinces.

1527. *Dr. Hyder*: Will you kindly tell me whether the indigenous banker has totally disappeared from your province or does he still exist?—There are several of them in my province.

1528. A statement has been made in the Bihar and Orissa Banking Committee Report that the old hereditary bankers have disappeared but that their place has been taken up by other people and that the old Patna Shroffs have now been transformed into zamindars by the operation of economic forces, etc. Is it a fact?—Yes, it is so.

1529. *Chairman*: You say indigenous bankers may be required to get their accounts examined and audited by Government Examiners. Are you in a position to state how this suggestion will be received by indigenous bankers?—I refer only to those people who would like restrictions to be placed on their operations in return for the privileges.

1530. You say unwillingness of Government to deal with private banks does not rouse the confidence of the public in such banks. Will you explain what kind of dealings Government should have with such banks?—I am referring to the Treasury and other Government work such as the postal work.

1531. I thought that you told me a little while ago that you wanted the Government treasury work to be given to the indigenous bankers. Now you say you want the work to be given to private banks?—I do not mean to say that the work should be given exclusively to indigenous bankers, I would have no objection to the joint stock banks also doing the work.

1532. But you admitted that the Imperial Bank at various places have actually handed over their *Khazanchi's* work to the indigenous bankers. So then, your statement so far as that is concerned is not wholly correct?—There is a great difference between the work of a *Khazanchi* of the Imperial Bank and the Government work.

1533. Are you aware that in some provinces some of these indigenous bankers used to function as bankers of Government in certain respects, and are you aware why that scheme was given up?—I know that Treasury work was being done by indigenous bankers, but I do not know why it had to be abandoned.

1534. In regard to the post offices do you know that in some principal cities the cash work is actually being done by private firms?—I have no knowledge.

1535. Therefore, if I suggest to you that you have made these remarks without any knowledge of the actual facts, I would be justified in saying so?—I have no knowledge of the conditions in other provinces, but so far as Bihar is concerned, there is no such arrangement in existence.

1536. May I suggest to you that even as regard post offices in Bihar you do not know the full facts?—So far as I know, generally speaking, no such thing is in existence in Bihar.

1537. I suppose you are taking a considerable amount of interest in the work in the Legislative Assembly?—No.

1538. May I suggest to you that if you had done so you would have noticed that Government have from time to time explained their position in regard to this matter in reply to questions from Hon'ble Members?—I do not know anything about that.

1539. *Mr. Buckley*: Referring to Bank failures, you talk of the Alliance Bank of Simla and the "National Bank". Am I correct in saying that you are referring only to the "Bengal National Bank" and not the National Bank of India which still exists?—I am sorry, I refer only to the Bengal National Bank. My memorandum may be corrected accordingly.

1540. The discounting of *hundis* is a very wide form of credit in India. I understand that the forms of hundis differ all over India in the various provinces. They are drawn upon pieces of paper. They have various salutations and all the rest of it. I just want to know this. Do you think that if the form of *hundi* is standardised all over India, giving as little detail as possible and made bi-lingual, *i.e.*, English and the vernacular of the Province on the same paper, it would be more popular with banks for discounting purposes?—I quite approve of the suggestion.

1541. *Mr. Manu Subedar*: In Bihar, I understand they have passed an Act by which Government directly gives loans to industrial enterprises, and I understand that some of these loans have not been very successful from the Government point of view. Is that so?—Yes.

1542. So, do you think, to avoid loss to Government it would be better if these industries are helped financially through an Industrial Bank?—I have no objection to the suggestion.

1543. You know that there are about 33 crores of rupees in the Post Office Savings Banks, another like amount in the Postal Cash Certificates and about another Rs. 80 crores in the Exchange Banks in the form of deposits. Do you think they are all Indian money?—I think the bulk of it is Indian money.

1544. And is it your opinion that the bulk of this money is not available for the industrial development or the internal trade of the country?—In my opinion, these funds are not at all made available for the development of the country.

1545. It has been suggested to us that some restrictions should be placed on the Exchange Banks receiving deposits in this country. Do you approve of the suggestion?—It would be better if it is done.

1546. Then, you think that these funds which now go to the Exchange Banks will be diverted to the Indian joint stock banks and indigenous bankers and will ultimately be available for feeding the internal trade and industry of the country?—That is so.

1547. In answer to the Chairman you said that the indigenous banker is now not in a position to finance the industries of the country, but that if he has somebody above him to fall back upon in times of crisis (Government or another Bank) he will not hesitate to invest his funds in the industries of the country?—Yes.

1548. *Chairman*: That is a general statement which you make with reference to all the indigenous bankers and you do not refer to yourself alone?—I mean not only myself but all the other indigenous bankers.

1549. *Dr. Hyder*: You have suggested the formation of an Industrial Bank in your Province. Do you think that if a bank is started you will find enough qualified men with the requisite experience, training and knowledge of the province to control the working of the bank?—I do not think there will be any difficulty on that count.

1550. You have said that the indigenous bankers should be given certain facilities and status as Indian joint banks. Now who should give

this status?—Either Government or the Reserve Bank when it is formed can assume these powers.

1551. Rai Bahadur, you have a very wide knowledge of your province. Do you not think that if this work of selecting certain people out of the indigenous banking community were undertaken either by the Reserve Bank or Government or the Imperial Bank, there would be a great heart-burning among the indigenous banking community as the men chosen would enjoy some special privileges and a superior position?—I want these privileges to be given only to those people who will be prepared to submit their state of affairs to audit, etc.

1552. Do you think apart from this willingness to submit their accounts to Government, etc., there need be no other restrictions or conditions?—I do not think any other restriction are necessary.

1553. How would you ensure that the accommodation which these men might obtain would be passed on to the less fortunate members of their fraternity and ultimately to the cultivator?—If they do not want to do the work, there is no question, otherwise they will get all these advantages.

1554. That is quite natural. But how would you ensure that the cheap rate of credit which one obtains would be passed on to cultivators?—Government might impose restrictions.

1555. *Mr. Lamond*: Referring to question 4 in your statement, you answer: "The banks, being generally in the hands of the foreigners, they do not encourage Indians in starting new industries with the same spirit as they do their own countrymen". May I know what system you have in mind which the bank adopts?—If a foreigner starts an industry, he will get advances against block, but it is not done in the case of Indians.

1556. Commercial banks do not advance moneys against block?—I know an instance where the bank had advanced moneys against the security of a mill. There was a flour mill on which security the bank had advanced a loan. This was about the year 1908, that is about 21 years ago.

1557. It was against block, Was it?—As far as my knowledge goes, because they had no liquid assets, that is stocks, they had to get a loan against block. At that time I was a buying and selling agent of that mill.

1558. Do you know what the security was?—I cannot say as I have not seen the papers.

1559. *Chairman*: Was that an English firm?—Yes.

1560. *Mr. Lamond*: That is the only case you know?—Yes.

1561. *Mr. Rushforth*: You speak about an indigenous banker being unwilling to advance moneys to industries, because indigenous bankers have no confidence in those industries, unless they can depend upon receiving Government help. In your province under the Industrial Act Government have helped several industries. Do you find that your indigenous bankers give those industries any further facilities now having greater confidence in them since they have been getting Government help? Does the Government help make any difference in your district?—The help given by the Government is not adequate; therefore all the industries have not been successful.

1562. The attitude of the indigenous bankers towards these industries has not been changed so far. Is it not?—I do not know about any industry that has been helped so far and I cannot say anything about the attitude.

1563. I would refer you to the section in the Bihar and Orissa Provincial Committee's report where you are speaking of starting an Industrial bank that would be able to take greater risks than the ordinary indigenous bankers. Are you not afraid that such a bank would compete with the indigenous bankers?—No.

1564. Do you not think that when such a bank is started it will give moneys at a cheaper rate and would give more facilities than those given by these indigenous bankers?—I do not think so. Even if they do, it will not be so disadvantageous, when the bank is started.

1565. Do you not think that the Bank would compete in any way with the indigenous banker?—Not, in such places. If there is a little competition or disadvantage, the benefit which the country will get would be a great consolation.

1566. *Mr. Jadu Nath Roy*: With regard to entrusting treasury work to indigenous bankers, I want to know whether it will be necessary for them to submit their balance-sheet or whether they will be restrained from doing any other business, even though they give security?—If the security is given, there is no need for them to submit the balance-sheet. But even if a balance sheet were required, I would have no objection.

1567. Would you have any objection if they are restrained from doing any other business?—They should not be restrained. When they give security, where is the harm in their doing some other business? But such business should be done quite separately and should not be mixed up with the banking business.

1568. If you give security and if there are any losses in the treasury business, you can make good that loss from security. Is it not possible? —But that will cause confusion.

1569. *Mr. Mukhtar Singh*: Does the indigenous banker give loans to an ordinary cultivator?—No, they do not give. There may be a few cases but I know indigenous bankers are not generally giving loans to cultivators.

1570. What is the rate generally charged by them?—They charge between 12 per cent. to 15 per cent.

1571. What is the rate charged by the Co-operative Bank?—15 per cent. to 18 per cent.

1572. When they get loans at a lower rate, why do they go to the Co-operative banks for loans?—Because they do not get loans from the bankers.

1573. What is the rate charged by a money-lender?—About 24 per cent.

1574. Do you consider that the Co-operative bank rate is higher?—Yes, because there are many formalities to be gone through in the case of Co-operative banks. They give loans to cultivators on the security of their land and the money-lenders are giving loans without any security.

1575. What do you propose that rate of interest should be reduced to? —I think the rate of interest should not be more than 12 per cent.

1576. In what way can the Co-operative banks reduce their rate and what sort of facilities you like them to give?—If they pay at a lower rate, they will get deposits. In the beginning when the Co-operative banks were started, they were charging 8 per cent. to the Societies and they used to give loans to cultivators at 15 per cent. At present their rate of interest is 6 per cent. to 6½ per cent. on deposits. They can even reduce their rate.

1577. *Chairman*: Is it a fact that they have not reduced the rate so far as Bhagalpur Central Bank rate is concerned?—Their rate was from the beginning Rs. 15/10 per cent. and I hear in Cuttack also the rate is Rs. 18/12 per cent.

1578. *Mr. Mukhtar Singh*: Do you consider, as you have stated, that the people in Bihar and Orissa are proverbially poor?—Yes.

1579. Do you think it is generally due to the fact that people there are mostly cultivators and that the only means of subsistence for them is land?—Yes. That is one of the main reasons.

1580. That is why you want more industries to be started there?—When more industries are started, there will be a fresh opening for earning.

1581. Do you think that a new industry there can be started without any risk?—To start an industry without a risk is a difficult problem. A little risk there will be, but I say that there is enough scope in Bihar and Orissa for starting more industries.

1582. Why do not the people start industry?—Because there is not sufficient money.

1583. Is it the only reason? You say the skill is there and all other things are there; only the finance is wanted. Is it what you mean?—The skill is there and even if there is no skill that can be provided for. There are other facilities too. The only thing wanted is credit facility.

1584. Do you think that if an Industrial Bank is started, it will be able to take the risk of advances?—According to my knowledge a Co-operative bank is started which is doing well. There is no reason why the Industrial Bank should not be started.

1585. You say that because a Co-operative bank is a success there, the Industrial Bank would also be a success. But a Co-operative bank has unlimited liabilities of members in the matter of securities; in the case of an Industrial Bank there will be no security?—I say those who will start industrial concerns will have capital with them in the beginning. Whatever industrial concerns will require moneys from the bank will have their own capital also. Of course, in any case I do not say that there will be no risk.

1586. You said in answer to Mr. Buckley's question that forms of *hundis* should be printed in the chief vernaculars of the provinces, that is, Hindi and English. What is your object?—My object is that one who wants a Hindi form may use that, one who wants English may take that.

1587. You are against the idea that people should not be compelled to draw their *hundis* in English alone?—

1588. You told us that the indigenous bankers will be submitting their balance-sheets. Suppose these indigenous bankers get themselves registered in the Joint Stock Organization, would it satisfy you?—My object is whatever may be the concerns they should get themselves registered.

1589. *Mr. Khaitan*: In answer to a question from the Chairman you said "Without some sort of Government help people do not have confidence in industries". In that Government help do you include protection?—Yes.

1590. Are people in general at the present moment under the impression that because of foreign competition it is not possible to have many industries in India which could be successful?—Yes.

1591. Therefore, would you like some change in the present fiscal policy of Government?—Yes.

1592. If people find that Government are prepared to give adequate protection to such industries as stand in need of it, they would be more easily willing not only to support industries but also to finance industries?—Yes, I think so.

1593. You are a member of the Board of Industries at Bihar. Is it not?—Yes.

1594. You have also been for some years a nominated member of the Bihar and Orissa Legislative Council. Is it not?—Yes.

1595. I may therefore take it that you are a great co-operator with Government?—Not always.

1596. What I mean to say is that you are not an extremist. You accept nomination by Government and you are nominated by them. What I want to know from you is that in spite of these liberal political views of yours, you think that in order to develop industries a change in the Government fiscal policy is necessary?—Yes.

1597. Regarding the appointment of examiners you told the Chairman that you wanted them to be selected in consultation with the Finance Department. Do you mean the Finance Department of the Government of India?—I mean the Finance Committee appointed by the Assembly.

1598. Do you advocate that because you are under the impression that people have not got sufficient confidence in the Government at present?—Yes.

1599. In your memorandum you have said that in Bombay banks such as the Imperial Bank, the rate of interest varies from 7 to 9 per cent. while the private banks and shroffs charge at the rate of 9 per cent. Have you any experience of the *sowcari* rate of interest in Bombay?—So far as I know, it is less than 6 per cent.

1600. Is not the *sowcari* rate of interest in respect of *khatapeta* in Calcutta, 6¾ per cent.?—My information is that it is less than 6 per cent.

1601. You have a firm in Calcutta?—Yes.

1602. You know that in Calcutta extensive business is done at the rate of 6¾ per cent. per annum, and often the *hundi* rate in Calcutta is much lower than 6 per cent.?—That depends on the market. At present it is as low as 1½ per cent.

1603. Do you know of any concrete case of a bank which has failed owing to speculative investment?—I do not know of any specific instance. In my opinion it may be one of the causes.

1604. Is it your experience that people who engage in indigenous banking are very cautious with regard to their investments?—Undoubtedly they are.

1605. If joint stock banks are started in future in India, is there much risk if they go in for speculative investment?—That depends on what sort of men are in charge of those banks. I do not think there will be any general risk. There may be some risk in certain cases.

1606. My information is that you have also got some industries besides banking. Is that correct?—Yes, I have got four mills, one, a flour and oil mill at Patna; another oil and rice mill at Bhagalpur; the third, again an oil mill at Calcutta; and the fourth mill I have just purchased at Benares to manufacture oil, but it will also undertake grinding of wheat.

1607. *Chairman*: You said you wanted to stop the foreign exchange banks taking deposits because you think that if they are stopped from doing so, it would add to the credit facilities in the hands of other people. Is your opinion based on a general survey of the situation?—Yes.

1608. Has that view any relation to actual experience in your own province?—That is my general impression; if they are stopped, the money will come into the Indian market and thus help Indian Industry.

1609. Therefore your view is based on what I may call general considerations and not on practical experience?—Yes.

1610. You told us that it is important to have an industrial bank in each province and you said that there is a great scope for such a bank in your province. But I find that the Indian members of the Banking Committee of your own province, of which you were a member, were divided in their opinion on this matter. Are you aware of that?—Yes, there may be difference of opinion.

1611. Then you say that unless Indian industries are adequately protected, the chances of their thriving are not very bright. You admit having made that statement?—Yes.

1612. Now then, you know that the securing of protection is rather a difficult matter. There are the interests of the industrialists who invest money as well as those of the consumer that are to be taken into consideration. It may be that even under a democratic form of Government, protection may be difficult to obtain. If therefore you were not certain of getting help for your industries in the form of protection, would you still support the idea of your Industrial Bank?—I think that even so, the Industrial Bank will have a useful purpose to serve, because my opinion is that even under a democratic form of constitution the Government will have at times, to help the industry with protection.

1613. But is that not putting the cart before the horse? Is it your view that the Industrial Bank should be started irrespective of the possibility of protection?—I think it should.

1614. Irrespective of the possibility of protection?—Yes.

1615. In one of your answers to Mr. Khaitan you said that you wanted to substitute 'the Finance Committee of the Assembly' for the 'Finance

Department'. Have you any idea what the Standing Finance Committee means?—That means a Committee elected by the Legislative Assembly.

1616. You do not know the constitution of that Committee. Probably you are not aware that it is not a statutory body.—But I have some experience of our provincial Public Accounts Committee.

1617. Is it your intention that the selection of examiners should be made in consultation with this Public Accounts Committee?—I meant the Finance Committee of the Legislative Assembly.

1618. *Mr. Khaitan*: Probably you made that recommendation under the impression that the Finance Committee was elected by the Legislative Assembly?—Yes.

1619. *Chairman*: Then, really there is no difference. You suggested two alternatives, one in consultation with the Finance Department for which you now propose to substitute the Finance Committee of the Assembly without understanding what that substitution would imply.—If it is by the Assembly, it will be by the whole body; but if it is by the Committee, then it will be by a small group of people.

SIXTH DAY.

Saturday, 23rd August 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Mr. R. W. BUCKLEY.
Mr. F. V. RUSHFORTH.	Mr. G. K. DEVADHAR, C.I.E.
Sir HUGH COCKE, Kt.	Choudhri MUKHTAR SINGH.
Dr. L. K. HYDER.	Seth Haji ABDOOLA HAROON.
Mr. W. LAMOND.	

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Mr. A. D. SHROFF, was examined.

1620. *Chairman*: You say that generally speaking debentures of cotton mills are not freely marketable like debentures of other industrial companies like the Tata Iron and Steel Company. Can you tell the Committee the reasons for this?—The thing is that most of the debentures which were issued by the Cotton Mill Companies were taken up either by the native States or by big financiers. I have prepared a statement of debentures issued by the various cotton mills which shows that the majority of the debentures were taken up by wealthy merchants or Indian Princes. When, therefore, small lots of these debentures are offered, it is difficult to find buyers. To give you an instance: in the case of the Kohinoor Mill debentures, when small lots are offered, it is difficult to find buyers.

1621. But if there are many buyers?—There being no regular dealings it is difficult to bring buyers and sellers together.

1622. *Sir Purshotamdas Thakurdas*: Is there any company which has a regular market for its debentures?—Yes, some, such as the Tata Iron and Steel Company and the Tata Hydro-electric Company. The debentures of these companies were so well spread over the investing public, that there were always some buyers and sellers.

1623. *Chairman*: Your reason for this state of affairs is that these debentures were taken by limited groups of financiers who did not try to place them on the market?—They never tried to create a market. In the case of companies like Tata Hydro, several local banks came out and bought its debentures. Even the Central Bank devised a scheme whereby it induced its clients to buy those debentures by instalments.

1624. *Vice-Chairman*: You know that the Central Bank underwrote Bombay Steam Company debentures?—From the enquiries I have made, they had practically finished off the whole lot. The Simplex Mills on the other hand issued debentures to the extent of Rs. 25 lakhs which were entirely held by the Chartered Bank. Their financial arrangement is such that the company stands committed to one bank to have all its finances through that bank alone.

1625. *Chairman*: Therefore, from what you say it appears that even the Exchange banks do interest themselves in these debentures?—No, if debentures are taken in the usual ordinary sense of the term in which we understand debentures.

1626. My point was whether Exchange Banks can give long term credit to, say, a mill by obtaining its debentures?—Yes, if they mean to help the mill industry.

1627. *Dr. Hyder*: Is it not the practice in other countries, for instance in Canada, that banks which support certain industries do not encourage those industries to go to other banks for accommodation?—Yes. In Canada they believe that if you want the best service, you must have one butcher and one banker.

Chairman: If I may state Dr. Hyder's point, if the same wholesome system is followed in India, will not the mills get more accommodation in the shape of debentures being taken up by the only bank they are doing business with?—Yes, assuming that the Indian banks are as enterprising as the Canadian banks.

1628. *Dr. Hyder*: Are you in favour of that system—one company, one bank—being adopted in India?—If it were possible to develop it, I should recommend it.

1629. *Chairman*: What is the difficulty in the adoption of this arrangement in India—one company, one bank? Does the difficulty arise from the defect on the part of the company itself or on the part of the bank?—It depends on how the bank looks at the position of the company, but personally, I think that the resources of the Indian banks at present are not sufficiently large so that they could commit themselves entirely to particular companies in regard to their total finances. If a bank like the Central Bank of India would finance a company like that of the Simplex, it would suffer greatly in the eyes of the investing public.

1630. Is it because the Simplex Company is not a thoroughly stable concern?—It is not in the eyes of some investors.

1631. I shall not pursue the question further. Now then, you state that the Treasury Bills have competed severely with bank deposits with the result that the banks have either to refuse or drastically curtail advances to the mills. You yourself refer to the financial weakness of the managing agents and the lack of ballast of some mill agents. Would it not be wrong to suggest that the curtailment of facilities by the banks may be due not so much to want of funds as to the policy of caution required in advancing moneys to concerns which have fallen on evil days and to the fact that the financial position of their managing agents, whose security is generally taken for such advances, has also weakened?—I am afraid the question confuses two separate ideas. When I make the statement that the continued issue of Treasury Bills by the Government of India has been responsible for depleting the regular resources of banks, I am making a statement which would be borne out by every banker in India. There is no direct relevance to the peculiar circumstances which have arisen in the case of certain cotton mills in regard to their financial position. I absolutely confirm the statement that banks suffered by the continual issue of Treasury Bills by Government and that their deposits have gone down considerably and I have known of banks having had to offer better rates for deposits to their customers.

1632. I do not want to pursue your point with regard to your first proposition. My only point was to find out the connection between the issue of Treasury Bills and the difficulty which the mills, you say, experience in finding their deposits. Is it due to the fact that these mills have fallen on evil days?—I do not agree. I think most of the gentlemen present here are conversant with the position of mills like the Swadeshi mills. Until two years ago, mills like this used to command better rates for deposits than even some of the banks. If you will compare the present deposit rates of some of these first class mills with the rates that they paid about 2 years ago, you will find that the mills now fail to attract deposits and this is naturally because of the fact that Government are trying to draw out all available funds through their Treasury Bills. It is only since April or May 1929 that there has been a continuous and regular issue of the Treasury Bills without any relevance to market rates. These mill companies do not take short term deposits of less than six months' duration owing to their peculiar difficulties and naturally they have been hard hit by the issue of Treasury Bills by the Government.

1633. *Chairman*: Then, do you hold that if the Treasury Bills had not been so frequently issued and the rates of interest had been lower, mills with good financial position would have fared better?—Yes.

1634. *Dr. Hyder*: So far as these deposits of the mills are concerned, could you tell us what the average size of their deposits was before the issue of Treasury Bills?—I have got a rough statement made out and I find therefrom that they (about 25 mills) had something like Rs. 5 crores in deposits between themselves.

1635. My point is this. You know that no one can operate with these Treasury Bills unless for a minimum amount of Rs. 25,000, and I do not know how you say that the deposits from the mills are being attracted by the Treasury Bills?—I can quite follow what you mean in regard to small sums, but there are depositors of large amounts too. My real point is that the mills were actually forced to offer higher rates for deposits because of Government competition. Money like water assumes its own level. Since Government paid higher rates for Treasury Bills, particularly for twelve-month bills, the cotton mills had also to quote higher rates to attract deposits.

1636. *Mr. Khaitan*: Supposing a man has deposited Rs. 20,000 in the Swadeshi Mills. He can withdraw it, add Rs. 5,000 to it and invest the amount in the Treasury Bills. Is that not what you mean?—Yes.

1637. Taking another case, supposing a man has invested Rs. 5,000 each in five different mills he can withdraw the amount and deposit the same in the Treasury Bills?—Yes.

1638. *Dr. Hyder*: Then will it not mean this, that the man who withdraws his money from these mills or other banks, will have to lose his interest on his deposits when he withdraws his money before maturity?—But, he need not do so. He can wait till the date of maturity arrives and then he need not lose any interest. In any case, the Treasury Bills are always open for subscription. Moreover these small deposits were diverted to banks who perforce had to raise their deposit rates.

1639. *Chairman*: Therefore your point is that since April 1929 Government have been following a peculiar policy and that that had an adverse effect on the deposits of banks and mills. But the statistics you have

furnished to us, hardly bears out your remarks?—I have furnished the statement to you simply as an illustration of the position of the deposits of cotton mills. I have only prepared the statement to elaborate my point, "The importance of this source of working capital is proved by the fact that for the year ending 31st December 1928 the amount of deposits received by 25 mills reached the aggregate total of Rs. 5·08 crores".

1640. Now, I find that even in 1920-21 Government were issuing 12 months' Treasury Bills and in that year they issued up to Rs. 14 crores?—Yes.

1641. The same was the case in 1921-22 also!—Then the practice was stopped for some years and only revived last year. What I am trying to point out is that Government had been taking the most ill-advised step in this matter.

I might tell you, Mr. Shroff, that I am not here to go into the question of policy of Government. We are here only to examine questions of fact.—With your permission, Sir, I might say that if you are at all out to give this country a banking structure which is going to promote the economic welfare of this country, you should organise that banking structure as a hand-maid of Indian commerce and industry. I would just like to place before you this standard which has recently been enunciated by no less a person than the Chancellor of the Exchequer of England.

1642. *Sir Hugh Cocke*: May I ask whether the deposits from these mills in Bombay have not fallen off only because of their declining position?—It may be so with weak mills, but it is not so with strong mills.

1643. You say that mills obtain loans from banks on the security of stock of cotton and cloth and that in several cases banks insist on the additional guarantee of the managing agents over and above the stocks hypothecated. In view of your statement that the borrowers are required to keep a margin of 20 to 25 per cent. for cotton and cloth in bales and 40 to 50 per cent. for cotton and cloth in process, can you tell the Committee whether you are aware of any reasons why banks insist on additional guarantees from managing agents?—It is all simply working on the idea of 'safety first' principle. Personally I know of several cases where Banks insist on the additional guarantee of the managing agents over and above the goods hypothecated. I should say this is really going too far and, if I may say so, is meaningless.

1644. Your point is that they are carrying on this question of guarantee to an unreasonable extent?—Yes.

1645. *Mr. Buckley*: Mr. Shroff, are you aware that there are many cases where the Managing Agents do not give their personal guarantee in the case of overdrafts, but merely give a guarantee that the overdrafts granted are always covered by stocks?—I have not come across a single instance like that in Bombay. Probably it may be so in Calcutta.

I do not know what conditions are in Bombay, but I can tell you what I told you is a fact so far as Calcutta is concerned.—I am glad to hear that.

1646. *Mr. Lamond*: You know that the Imperial Bank Act requires a second name in such cases. Therefore, if the Imperial Bank does not do so, the other banks naturally follow suit?—If they do so you will excuse my saying so, there is not much commensense behind that. On the same

principle, I wish that the Imperial Bank is made to do certain other things which the other banks are doing.

1647. *Chairman*: You say that to encourage the floatation of iron and steel companies which require a large proportion of fixed capital, it is necessary to mobilise the existing resources for obtaining capital by the formation of industrial banks. In a later paragraph you say that the cost at present of raising the necessary capital is rather high. Do you expect that with the establishment of Industrial banks the cost of raising capital will be considerably reduced?—It is not so much the question of the rate at which one gets the capital. Promoters of several industrial concerns say that there is no capital available for certain industries. I do not say that the capital is not there in India; capital is there but I say it is not properly mobilised. To give you an instance, I may refer to another industry which needs the capital. I mean the cement industry. Two new cement companies have been started, they are the United Cement Company and the Okha Cement Company. The promoters of the Okha Cement Company experienced great difficulty in raising a capital of 30 lakhs, although cement companies were paying good dividends at the time.

1648. *Chairman*: I may tell you that one of the witnesses told this Committee that there is no difficulty in getting capital for the cement industry. What do you say to this?—Well, that is my actual experience that the cement industry does suffer from want of capital. May I know if that statement bears it out that the cement industry is getting all the capital that is wanted?

That is our information. He says "If there is hardly any industry worth the name which suffers from want of finance, it is the Textile industry."—I absolutely challenge that view.

1649. You say that the Tata Industrial Bank could not survive long because of ignorance of the fundamental principles underlying the working of such banks. Will you kindly explain what the fundamental principles you refer to are?—The particular reference I would like to make is this. An industrial bank is essentially a bank which is never anxious in its earlier years to show large profits. An Industrial Bank proceeds very slowly, gradually and with caution. That is to say, several propositions that are taken up by the Industrial Bank are such that they should be well tested and tried.

1650. Is this fundamental principle which you mention followed in any other country?—I think it is there in other countries. On account of this principle the banks in Germany and Japan are successful. I also refer to the ignorance of the investing public.

1651. You say that the ignorance of fundamental principles is the cause. That means the working of such banks reacts on the management of the bank. To the best of my knowledge there were certain big people in the case of the Tata Industrial Bank and I cannot find out wherein came question of the ignorance of the fundamental principle?—I am afraid I am not a witness who takes everything on authority. Because there were big persons, it should not have happened. That is the suggestion. Is it so?

We have been trying to discover what was the difficulty or difficulties which led to the failure of this Bank. We have put the same question

to several of the witnesses and we could not get any information from anybody. Now, as you make this statement, we want to know wherein the ignorance of fundamental principles lay.

1652. *Dr. Hyder*: Are you thinking of the industries started by people or of new industries?—There may be new industries also. What I say is it should be such an industry as gives reasonable guarantee of success. For instance, the Nira Valley Sugar Company which was floated by the Tata Industrial Bank and which proved a failure.

1653. *Chairman*: It may have been that the Tata Bank did give a loan to the Companies which were not sound as, for instance, in the case of the Nira Valley Sugar Company. Your first statement was that this Bank tried to show large profits from the beginning and therefore it came to a crisis. Is it not?—That is one of the reasons.

1654. In the first instance you said that is the reason. So, I thought that it is the only reason. But now, I know that it is one of the reasons. Is there any other reason you seem to know? We have been asking many witnesses about this but they said they were not knowing them personally.—The floating and financing of the Companies was at the time of boom period. People had no idea about an industrial bank in India. At that time the holdings of the Tata Bank showed immense profits. I may tell you that a share which was Rs. 15 paid-up was at a premium of Rs. 60. That was only within three months from the date of issue. I think wiser management would have supplied a corrective by unloading a part of the large holdings which they had in this Company.

1655. Did the Tata Industrial Bank actually try to run a business concern apart from their banking business?—No, they did not manage a business concern. They wanted to finance certain subsidiary companies and so the Industrial Finance Ltd. was formed.

Then they simply advanced money. Is it not?—Yes. I know industrial banks in Germany work industrial concerns, but in the case of the Tata Bank I do not think they actually worked a concern.

1656. As regards Germany do they not manage concerns?—They appoint their nominees to work as directors on the board of industrial concerns.

1657. *Mr. Buckley*: You say that they had an Industrial Finance Company. Can you tell us what the bank's holding of the shares of that company was?—I have got the balance-sheet. I will give you the figures year by year.

1658. My recollection is that it was about 38 lakhs?—I will prepare a comparative statement and send it to you later. But I can say that it was roughly 39 lakhs of rupees.

1659. I think it was about 38 lakhs. That is my idea. Can you tell us when it was reached?—I think it was within four or five years from the inauguration of the bank.

1660. The Tata Bank was one of the Tata Groups and in order to eliminate the criticism that the bank was run in their own interests that company was formed?—If you watch the figures of the deposits of the Tata Industrial Bank year by year and those given in the following column about investment in shares, you will find that deposits declined as a result of depreciation in the value of shares.

1661. *Sir Purshotamdas Thakurdas*: What was the bank capital locked up?—At one time about 40 lakhs.

1662. *Mr. Buckley*: I think out of two crores it was only 26 lakhs?—That was just when the bank was started. Four or five years in the case of an Industrial Bank is not a long period.

1663. *Chairman*: If at the end of four or five years they had put in the holdings nearly 38 lakhs out of 2 crores would that be considered excessive?—I think so. If you see their last balance-sheet, you will find a sufficient indication there of how the bank was going on. A loss of Rs. 11 lakhs had to be written off their investment in new industrial companies.

1664. *Mr. Buckley*: You have referred to the capital for industrial concerns. Was not that the time when at Bombay and in Calcutta shares were taken up in enormous quantities?—There is a distinction between a banker and a layman.

1665. *Chairman*: Therefore, you think that the trouble might have arisen from the point of view of a layman though from the banker's point of view it was absolutely sound?—What I say is that the banker should have taken a wiser view.

1666. You suggest the establishment of an industrial bank in each of the major provinces of India. Can you give the committee any idea of the initial capital that will be required for starting such a bank? If you cannot give an idea regarding the requirements of the whole of India, can you at least give an idea of the capital required for the needs of the Bombay Presidency?—If we have to start an industrial bank, its authorised capital should be 5 crores and its paid-up capital 1 crore. I take these figures considering the industrial possibilities of this province.

Nothing less than one crore would be the paid-up capital?—We cannot be so arbitrary about figures.

1667. It is not a question of arbitrariness. We have been told by an experienced banker that to start an Industrial Bank 50 lakhs would be sufficient for a paid-up capital. What do you say to this?—With all due deference to that gentleman, I do not consider it a practicable idea. If you want the industrial bank to do any good to the country, it must have a paid-up capital of at least 1 crore.

1668. On this point there is an adverse opinion. May I know why you consider the minimum figure of paid-up capital should be 1 crore?—Some of the cotton mills at Bombay have recently raised money on debentures with very great difficulty. One mill raised debentures to the amount of 70 lakhs. Another raised money up to 20 lakhs. And the third mill is trying to raise moneys by debentures at the moment up to 25 lakhs. I do not see how the Industrial Bank with a capital of 50 lakhs is going to meet such demands.

1669. If the security is good, the Industrial Bank can also raise debentures. Therefore, if these mills want loans to the extent of 5 crores on adequate security then the Industrial Bank will issue debentures and supply them with funds?—I say the amount of debentures should have some relation to the amount of paid-up capital.

1670. So, you want to impose a limit?—Yes.

1671. I think somebody has suggested to us that we can make the limit of debentures 15 times the amount of the shares subscribed?—If there are good industrial possibilities in the country, I do not see why debentures may not be allowed to be issued accordingly.

1672. You have complained about the attitude and policy of the Government of India. You are no doubt aware that the subject, Development of Industries in the Provinces is generally speaking a Provincial subject? The only concrete suggestion you make is that Government should undertake the responsibility of lending financial assistance to Industrial Banks either in the shape of direct subscription to their capital or bonds or in the form of guaranteeing repayment of capital and interest on bonds issued by them. Will you tell the committee whether any attempts have been made in the past to float such banks and Government assistance asked for?—The question rests on this. What has been the attitude of Government in regard to the industries of the country? When we know that Government have not adopted the recommendations of the Industrial Commission of 1918 as a matter of policy to start Industrial Banks, I think it would be a waste of time to go and ask the Government to do anything for it. I do know that the industries are a Provincial subject and when I refer to Government, I mean the relative Government, either Provincial Government or the Government of India.

But here you have said in your memorandum Government of India. If you had simply stated about the attitude and policy of Government, I would have not asked you this question.

1673. You say that industrial banks can open current accounts under short term deposits and do the ordinary commercial banking. One prominent banker in his evidence before the committee has suggested that, except in certain special circumstances industrial banks should not do commercial banking. Can you tell the committee why you advocate the combination of both commercial and industrial banking in your proposed new institution?—Yes. I have made that recommendation about the working of the industrial bank. I do not see there is any objection to an industrial bank taking up the commercial side of banking. If industrial banks cannot employ their capital by taking up projects, they may consider propositions of supplying working capital to the industrial concerns. I have seen in a paper a suggestion that these banks should accept only deposits standing for three years. I say that may be the experience of people outside Bombay. But I do not think people are prepared to give to a bank deposits for three years.

1674. We do not pursue that point at all. But that is the experience of the gentleman who has made that statement. He is a man of considerable experience in banking at Bombay. What do you say to this?—I simply say that if you had asked the witness to show you the figures of deposits, you would have been able to find very rare instances in Bombay of deposits standing for three years.

1675. He was basing his proposition on a very sound banking proposition that their short time deposits should not be utilised for providing long term loans?—He may be trying to improve upon the principle of safety first—Safety first number one.

1676. You say that there should be a well equipped intelligence department of the industrial bank placed under the direction of a man of varied

industrial experience who may be in a position to formulate schemes for the development of the industrial possibilities of the province on a business scale and also to analyse and criticise similar propositions placed before the bank for financial assistance and support. Is it your intention that the industrial bank should itself initiate proposals for the development of industries and not merely examine and finance proposals placed before it?—I have to say this. The idea I have in mind for an Industrial Bank to be established in India is this. There are certain agencies at present in India who work like what we call the underwriters in other countries. These underwriters have sufficient knowledge of the business, but there is a lack of sufficient capital with them. If the Intelligence Department of the Industrial Bank doing research work comes across propositions with a reasonable guarantee of success and if such propositions are placed before the under-writers, they would pick them up and float companies.

1677. Am I to take it that you advocate that these banks will not only receive deposits, cash cheques, transfer accounts, make loans, etc., but also share and participate in the conduct of the industrial and commercial concerns?—Yes, that is the idea.

1678. Are you aware of the circumstances which led to the establishment of such banks in Germany?—Yes, I am.

1679. Can you explain those circumstances?—The real rise of the modern banking structure in Germany may be dated from the Franco-Prussian War of 1871. What are called Grossbanken were started from that date. They have not developed to the full extent what we call deposits but have drawn a new line, thus combining deposit banking with long term finance. The percentage of demand deposits held by the Grossbanken is comparatively small considering the whole total.

1680. No doubt you are giving us an interesting account. But my point is "What were the circumstances which led to the establishment of such a Bank in Germany?"—The thing is this. The actual regeneration of the country is dated from the Franco-Prussian War. Some of the industrial propositions in Germany were financed by foreign banks like Banque de Paris et des Pays Bas. Later, the growth of large industries created the need for industrial banks.

1681. *Chairman*: The most important factor, however, was the fact of the simultaneous capitalistic evolution of industry proper which necessitated a parallel development in the banking field. It cannot be said that the banks created the industries, since the funds which are gathered by the banks in increasing volume are mainly the result of the increasing productivity of capital invested in industrial undertakings. It is however true that the creative power which in a comparatively short time placed German industry in its present commanding position took its origin with the men who put to practical use and in the interest of the economic progress of the nation the achievements and inventions in the domain of science and technique.—That confirms exactly what I said, Sir.

1682. Is it possible to depend on that sort of development in India?—While I do advocate German banking as a model, I do not disguise the fact that conditions at present obtaining in this country are not suitable for any advance on those lines. In my opinion India would not have been so backward in the sphere of banking if the public had taken that amount of interest in the development of banks like the German Grossbanken.

1683. You raise the general question that the public here do not take interest, but you are throwing on Government the onus of providing the capital by guaranteeing the interest.—I am only trying to compare one nation with another to show what can be achieved with the help of private public enterprise. I do not subscribe to the view that Government should shoulder the responsibility. My point is that the percentage of educated people in Germany was much higher then than the percentage of literacy in India today.

1684. Therefore, it was character including brains which helped Germany in those days and not capital alone, to reach their present position?—The circumstances are so entirely different that it is difficult to argue further.

May I read out to you another extract from page 706 of Parker Willis' book: After the War German business requirements have been financed to only a small extent from within, and to an overwhelming degree by foreign loans, placed more by private banks than by the Grossbanken.

Again, Sir, you are discussing an exceptional situation. In 1920 Germany was trying to recover from the after effects of the war. All capital was lost to her as a result of the enormous depreciation of her currency, and she had to put forth considerable effort to restore her credit.

1685. I did not say 1920. I said, after the war, not immediately after the war. Here again it will be open to considerable doubt whether the savings available in India are like savings available in Germany.

Efforts should be made to mobilise the savings available.

1686. *Chairman*: You say that Government should have the right of nominating an additional director on the Board of the industrial bank without the right to vote at Board meetings. In view of the fact that Government under your proposals may have a large stake in the bank on account of their subscribing to the share capital or guaranteeing the repayment of capital and interest on debenture bonds issued by the bank, will not the Government require an adequate voice in the control of the banks?—

In addition to one Government Director, Government may appoint one or two trustees or a debenture Director to watch the interests of the debenture-holders.

1687. You say that the Board of Directors of the Industrial Bank should consist of business men and financiers of long experience. If the Industrial Bank is formed on joint stock principles, can you always ensure that the shareholders will elect to the Board men of the type and qualifications you mention?—I am glad, Sir, you have raised this question, because with your permission, I would speak on this question not only about industrial banks but about all banks. Unfortunately our experience in India is that though we have some experienced, wealthy and competent men, the wisdom of managing banks seems to have been monopolised by a selected few and unfortunately the shareholders have often felt—I should say, always felt—that they are not able to put on the Board men whom they would elect. Those men are always appointed by the promoters themselves. This is a curse.

1688. *Chairman*: If I may intervene at this stage just for one moment—you are simply confirming the suggestion that I made a little while ago that what is wanted in India is both character and brains.

(Witness) You cannot look to the shareholders to find competent men as Directors of Industrial Banks. It is a common vice. As I have already pointed out, the one reason why banks in India are so weak is because the character of the directors that we have in several cases is none too great to inspire confidence.

1689. If that is so, perhaps you would like your industrial bank to be wholly run by the Government as a sort of a national concern?—I would not say that; I am simply pointing out an incidental defect in the management of banks.

1690. *Sir Purshotamdas Thakurdas*: Incidental or fundamental?—It has become an incidental defect now.

1691. *Dr. Hyder*: Do you mean to say that in other countries shareholders are very wide-awake? Are they not everywhere a kind of sleeping partners?—Perhaps you do not belong to Bombay, Sir. I may tell you that in Bombay we have an organisation known as the Bombay Shareholders' Association, which has made it its business to collect all the information likely to be of use to shareholders in general. It has not only succeeded in some cases in getting the Directors to accept certain suggestions for improvement but in one case it succeeded even in obtaining a modification of the Managing Agency agreement.

1692. *Dr. Hyder*: How do you propose to have on the Managing Board the type of directors acceptable to the shareholders?—By a change of heart.

1693. *Chairman*: Is that the only remedy you have to suggest for this state of affairs?—I am sure, Sir, you believe in what is called the moral effect of things as against legislative pressure.

1694. You suggest that the Committee should study the possibility of developing credit insurance in India. Can you tell the Committee whether the system has been adopted by any existing banks in India and with what result?—I do not think any bank in India has adopted this; I do not know if many people have studied the subject either.

1695. One of the reasons given by you for developing this system is to enable the banks to finance traders and manufacturers who sell their wares on the instalment purchase system. It has been pointed out by one of the provincial Banking Enquiry Committees that an unregulated development of the hire purchase system might result in the creation of a multiplicity of hire-purchase institutions on a profuse scale with all its accompanying evils. Have you anything to say in regard to this suggestion?—The hire purchase system has advantages as well as disadvantages. Its development in countries like America shows to what extent you can support the industries. One definite evil is that you are educating people to mortgage their future.

1696. I trust you will admit that in a country like India where education is so limited, the possibility of developing the hire purchase system to the advantage of the people is less than in a country like America.

It may be said, speaking for the country as a whole; but speaking for cities like Bombay, I think there is sufficient scope for its development.

1697. *Chairman*: You state that there is no well-defined system for recruiting the staff of the principal Indian joint stock banks you have named and state that some of the banks have become the dumping ground for law graduates and floating solicitors. Can you tell us if the shareholders of such banks or the public generally have taken any interest in the system of recruitment of such Indian banks?—I have already told you what influence the shareholders command in the management of joint stock banks in India. Perhaps it will interest you all gentlemen if I give you an illustration in support of my statement that some of the banks have become the dumping ground for law graduates and floating solicitors. I am in close touch with the working of the banks in Bombay. One day a client of ours purchased some shares of the Karachi Electric Company. It so happened that before he could have the shares transferred in his name, the share transfer books were closed, and the section manager in charge (a solicitor) when requested to write to the company not to pay out the dividends on the shares that had been purchased until he had heard from the transferor, said that the only course left open for him was to move the High Court and take an injunction against the Company.

1698. *Sir Purshotamdas Thakurdas*: What was the amount concerned?—It was only 30 shares and the dividend concerned Rs. 135.

1699. *Chairman*: You say that the exchange banks have been able to attract large deposits which would otherwise have gone to Indian banks. It is on the other hand suggested by some witnesses that the attraction of large deposits by exchange banks is due to the confidence of the public in such banks owing to their well established position and that if there is any legislation prohibiting such deposits, there will be no appreciable accretion to the deposits of Indian joint stock banks. Have you any answer to this argument?—I have already stated my ideas very clearly. Exchange Banks have been able to attract deposits from this country because they have very well fortified their position because of their dealings in this country for many years past.

1700. *Chairman*: That is not my real point. My point is whether legislation is needed to prohibit their deposits in this country?—I do not suggest prohibition of their deposits. To remove the disparity between the Exchange Banks and other Indian joint stock banks, my suggestion is to levy a tax of half per cent. on the deposits of the exchange banks. This disparity at present is due to the earlier start which the Exchange Banks had had and my only idea is to remove this disparity.

1701. The result might be that they may cease to function in India?—That is my intention. If they do think it worth while to continue their business in India under those conditions they may; if not, they may pack off their business.

1702. By the imposition of such a tax do you think that there will be any appreciable accretion to the deposits of the Indian joint stock banks?—I think so. Do you, Sir, ever believe that owing to the increase of half per cent. in their borrowing rates, the Exchange Banks will close their business in this country? I for one feel that they certainly will not. Do you know the amount of net profits made by the Exchange Banks in this country?

Mr. Buckley: We don't show our net profits separately for India.

Witness: Are you prepared to say that your major interests are not in India?

Mr. Buckley: We have business in several parts of the world, in the Federated Malay States, in China, in Japan, in Java, etc.

1703. *Dr. Hyder*: What do you think will be the result of putting a tax of half per cent. on the deposits of the Exchange Banks?—A considerable part of the deposits that now go to the Exchange Banks might go to the Indian joint stock banks, because the Exchange Banks will be forced to reduce their deposit rates still further by half per cent., which will in effect be advantageous for the Indian banks.

1704. *Mr. Buckley*: Are we to understand that we must charge the ½ per cent. to the borrower? Who has to pay for it?—You have either to reduce the rates for borrowing or increase the rates for lending money.

1705. *Chairman*: Pertaining to the question of deposits, we were told by an Indian banker of great experience that there is no competition between the Indian joint stock banks and the Exchange Banks in the matter of deposits. So, can you give us the figures of the deposits?—I will give you relative figures. But I say there is a competition between them.

1706. We understood him to say that they had no complaint to make on that score?—I am happy to learn that if it comes from an experienced banker.

1707. I have asked one witness whether he would present the view of Indians on the question of deposits in a short note. I would like to know whether you can also give such a note?—I can do that.

1708. *Mr. Rushforth*: You have referred to the actual margin of profits at which the exchange banks were working at the present moment. You know that with the current quotations of 1*s*. 5 $\frac{5}{32}$*d*. for Telegraphic Transfer and 1*s*. 5$\frac{11}{32}$*d*. for three months' bills, the margin of profit works out at about ·15 per cent. on the transaction. Allowing for turnover 20 times in a year it works out to 3 per cent. per annum. Is it not so?—I thought that somebody would raise this question and I am in a position to give a reply. What has put the exchange banks in a very strong position at present is that the profit which is earned is much higher. You have not to consider merely the difference in the two rates but the volume of business.

Mr. Buckley: I can assure you that the profit works out at ⅛ per cent.—That is for one transaction. You are monopolising the foreign trade of India which runs into six hundred crores. That you have to take into consideration.

1709. *Mr. Rushforth*: I say you have to consider that when you buy bills you have to wait until you realise the proceeds?—I do not think that is the correct basis.

1710. *Mr. Buckley*: You have made a statement that the banks have made enormous profits in exchange?—They have made that for a number of years.

1711. They are not making them now?—I am not aware if they are not.

1712. *Mr. Rushforth*: You have proposed a tax of one half per cent. on deposits, received by foreign banks. Suppose the bank could not stand

the extra charge out of its margin of profit. Would it not be possible that the tax would be passed on to an Indian client?—I do not agree. My intention is this. I want to make it less and less possible for the Exchange Banks to get Indian business.

1713. *Chairman*: You say that Government operations in the West follow certain recognised and easily understandable practices which serve as a guide to the other constituents of the market and that at present the absence of such information in India robs the money market of a part of its stability and consistency. I suppose you are aware that the operations of Government under the present system of management of currency and credit are partly for ways and means purposes and partly in connection with their currency and credit operations. So far as the latter operations are concerned, is it not the fact that even the Bank of England sometimes operates in the London money market to stiffen it by the gentle use of what is called the "hidden hand"?—I agree, but there is another thing which I have in mind. When I refer to certain easily understandable and well recognised practices, I mean this. I want that Government should publish their ways and means figures. When Government plays such an important part in the money market of India that the size of the Government financial operations influences other operations, it is but fair that they should issue some data in this connection.

1714. Do they not publish the ways and means figures?—No. They do not. In the last year, Sir Phiroze Sethna put a question in the Council of State suggesting that the ways and means figures should be published and Government were good enough to give their reply which says: (The Honourable Mr. E. Burdon said:) "It is the established practice in England to publish week by week figures of the kind mentioned by the Honourable Member. This disposes of parts (*b*) and (*c*) of his question. As regards part (*a*), I am afraid it is impossible to achieve the promptitude which the Honourable Member suggests, owing to the fact that the receipts of Government accrue, and disbursements have to be made, at a large number of treasuries, and sub-treasuries, distributed all over this country, and also to the fact that the accounts of the Government of India to be complete must include the transactions of the Secretary of State and the High Commissioner. I take it that the Honourable Member is aware that the Government of India already publish in the *Gazette of India* once a month a Statement of Revenue and Expenditure in India and in England, as also a Return of Rupee Debt once a quarter. Figures relating to Treasury balances are communicated to the Press monthly by the Controller of the Currency. Government will consider the possibility of putting the statistics into a more convenient and comprehensive form and of publishing them in the *Gazette of India* once a month. I am afraid, however, that the figures for any particular month cannot be made available till about three months after the close of the month". In London we get one week later.

1715. Do you realise the difference between London and India?—It is simply a question of expediting the returns.

1716. Here there are so many treasuries. It naturally takes time, because the sub-treasuries have to send the balances to the treasuries who have to make up the balances and then send to the man in charge of the operations in the Province. There they have to consolidate them and so on. When they are finally consolidated they are published which takes some time. You cannot expect things done in England to be done here

in India?—It is most surprising to hear that we cannot have the figures within three months even with an efficient machinery working.

1717. You say in the memorandum "The information given in London every week by Government as regards their ways and means position, fluctuations in the floating debt, etc., indicates the probable time and dimensions of Government operations in the money market". Are you aware that even in India the information about the Government Treasury Bills is published from week to week?—They are. But Treasury Bills are only one of the items of the ways and means position of the Government of India.

1718. Purchase of sterling is published every month?—Yes, they are practically of no use.

1719. What I am pointing out to you is, that having long connection with the Finance Department of the Government of India, and knowing what it does I find that your statement made just now lacks substantial evidence?—I do not think so. I am suggesting a way whereby the Government of India should fall in line with other advanced countries, which follow this practice.

1720. In London the arrangements of the Finance Department are quite different. In India, if there was only one Bank with which the Government transactions had taken place, then perhaps there would have not been any difficulty. But here we have got so many branches of banks and also treasuries. There are 300 treasuries and a thousand sub-treasuries?—You should ask those banks or treasuries to give you figures every month.

1721. Certain banks and treasuries do give their figures every month. Figures for treasury bills are supplied almost every week; so also the sterling bills transactions figures are supplied every month.—The information required will be receipts, expenditure incurred, total amount of treasury bills outstanding. This is something different from giving the total amount of treasury bills accepted during one week. There should also be mentioned the total amount of bills in the hands of the pubilc. This is a more important matter in India. *"Ad hoc"* bills are created at the sweet will of Government.

It is no use your criticising the action of Government. You come here, as a witness before the Banking Enquiry Committee and not to criticise a particular action or policy of Government. It is no use your using the words "sweet will of Government, etc."

1722. *Mr. Khaitan*: May I know that by your saying "Sweet will of Government" you meant that Government do not give any information?—Yes.

1723. *Chairman*: I know, Mr. Kikabhoy Premchand gives most of this information which he collects from the information given by Government?—Mr. Kikabhoy does not represent Government of India. What is the duty of Government of India should not be delegated to any private broker. I myself issue certain reports every week, but we want Government to do this.

1724. I put it to you that if Government do not give this information then how is it that the public are able to collect this information?—I ask "what about loans from the public departments"? Is it ever mentioned anywhere in the public records? Only the annual financial statement is published in which you say that Government have got certain available balances.

For instance, Civil Servants Provident Fund, items like this should be published. Will you point out any Government publication in which such items are given?

1725. You say "loans from public departments". May I know loans to whom?—I say loans to Government. I mean the very funds which do not belong to the revenues of India.

1726. Have you read the monthly statements which are published?—Yes.

1727. Have you seen that there is an entry of unfunded debt?—Yes. But unfunded debt is not public department funds.

Unfunded debt includes treasury bills, Post Office Savings Bank deposits and also deposits of the servants, etc.—If that is so, let the Government split up those items.

1728. You say that in England what is lacking in legislation is amply made good by the growth of conventions and practices based on experience. Will you tell the committee whether, in your opinion, banking legislation is likely to be more effective than the growth of convention and practices?—Sir, before we go to that question, I may point out that you have not asked me the question regarding the "hidden hand, etc.".

I asked you that question and on that the discussion has proceeded.—I want to say about the hidden hand in India.

That may be, but you are entirely wrong to say that I have not asked you that question. Let me warn you about it. You have finished with that?—If you are not prepared to hear me on that point, I drop it there.

You make an allegation that I did not ask you the previous question. Every member of this committee knows that there was a long discussion on that question and I cannot stand such an allegation.

1729. Now, we have come to the next question. Will you tell the committee whether banking legislation is likely to be more effective than the growth of convention and practices?—Certainly. The convention and practices which have come to stay are a result of the long history of banking in England. In a country like India we have actually started building a structure when the banking structure in England is already established. We have seen certain mistakes in the management of banks of India and if the banking structure in India is to be protected from the well-known evils, let us prescribe remedies against these evils in the form of laws. In England there is practically no banking legislation except the operation of Bills of Exchange Act and the Treasury Regulations which state that whenever any two banks want to amalgamate themselves, they have to take the sanction of the British Treasury. But as it is I say, we should have banking laws in India, because, as you have already pointed out, we cannot compare India with England.

1730. You want to include in the Bank Acts co-operative credit banks and land mortgage banks. Is it not advisable to keep these two institutions separate and are not co-operative credit banks already governed by a separate Act?—What I would suggest is this. If one comprehensive law regarding banking is made, in that law there should be included one section which would relate to Co-operative Credit Societies.

1731. If you consider this point from the present constitutional position, you will find that the Co-operative Credit Societies come within the purview of the Provincial legislatures?—Much depends on what actual political situation we have to face.

1732. There is no question of future things. This is a question on existing facts. This subject certainly comes within the purview of the Provincial Council. Whatever the political situation may be, there will be a demarcation of functions between Central Legislatures and Provincial Legislatures. I am simply pointing out this difficulty to you that stands in the way of the acceptance of your suggestion?—When the Banking legislation is made, there may be a section made applicable to the Provincial Councils.

1733. Still there may be some practical difficulty. It is this that the Provincial Councils will not be able to modify that section. Your definition of 'bank' or 'banker' will exclude certain firms and individuals that receive deposits from the public but are not engaged in the business of making loans, *e.g.*, Bombay cotton mills. Do you think that any protection is necessary for the depositors with such firms and individuals?—I do not think so. Because those who go to place deposits with cotton mills fully realise that they are putting moneys with manufacturing concerns involving risks in business. They do that with their eyes open.

1734. You say that your definition of bank or banker includes private indigenous bankers. It has been pointed out that many indigenous bankers in certain provinces do not accept deposits and as according to your definition the receipt of deposits is essential for inclusion of any individual or firm in the list of banks or bankers, such indigenous bankers will be outside the scope of your definition. Have you any suggestions to make to remove this defect?—I prefer to stick to my definition.

1735. From what you have said now, read with what you have said in your written memorandum, the impression might arise that you belong to the school of thought that any attempt to revive the indigenous banker on a large scale is not likely to succeed but that at the same time you hold that bankers of this class who submit themselves to certain regulations should be given a place in the future organization of banking in India. Would that be a correct appreciation of your views on the subject?—Exactly I want the indigenous bankers to be put, if possible, into the form of modern banking offices. If this is not possible, I would prefer in the interest of the public that indigenous bankers should be gradually eliminated.

1736. You say that bank directors have in some cases been found to be innocent of banking practice or of ordinary business prudence. Would you prescribe by legislation any qualifications for directors with a view to ensuring the formation of a well qualified directorate? Would you also state whether you would insist on such qualifications in regard to all directors or only to a certain number of them?—I have to illustrate an incident in this connection, if you will care to hear me.

Oh yes!—One of the Indian joint stock banks failed in 1913 and its failure resulted unfortunately in one of the directors being called upon to bear certain liabilities. He was a medical man by profession, a gentleman with great social position carrying a Knighthood. When the bank failed, this gentleman was called in the Court and asked what he meant by a bill of

exchange. He was frank enough to admit that he had never seen one and could never define one. Well, Sir, if such type of people are going to be responsible for the management of banks in India, we would rather have no banks at all in India.

1737. That is the incident which you have actually given in your memorandum. My point is if you have any suggestions to make?—What I say is that the whole question should be left to law.

1738. *Mr. Khaitan*: Was that doctor useful in getting deposits?—He was a very influential citizen.

1739. *Dr. Hyder*: Would you prescribe some examination for directors?—Most of the directors are of such an advanced age that they would always fail in the examination.

1740. *Dr. Hyder*: Then your position is that the bank directors suffer from two defects?—senility and inability.

1741. *Chairman*: I suppose you have not prescribed any age qualification?—No, certainly not.

1742. *Mr. Devadhar*: Will you mention whether the instance you have given is more or less an exception or is it a general rule?—You are asking me a very inconvenient question. I do not think it is permissible for me to name the persons but if it is permissible, it would be easy to impress upon you how inferior are the quality and character of certain directors of certain banks. However, I will say in short that this is a general rule.

1743. *Chairman*: You propose that the banking law should prohibit certain systems of remuneration. Is it the practice of banks anywhere to provide for these things by legislation?—The problem has arisen in India in an acute form. Since it has arisen in India it must be met. I tell you that it happens not in one exceptional solitary case. Recently a new bank was floated in India by a gentleman who could not obtain renewal of his agreement with his previous bank. I call it a positive evil.

1744. You suggest that the committee should draft with the assistance of competent lawyers a certificate by Auditors which should be appended to every balance sheet and Profit and Loss Account, and that the certificate at present given is largely vague and non-committal. Can you summarise for the committee the various points that you would like to be included in the Auditors' certificate?—Certainly. I would refer you to my suggestion as regards the statement of Profit and Loss Account which should be required by banks in India. It has been given in my memorandum. According to the present practice the Indian Companies' Act does not require banks to show their investments at actual market value. This laxity or defect in the Indian Companies Act has been unfortunately exploited by the banks. They show the value of investments at an imaginary value. I have not asked this merely on the consideration of the position disclosed by the existing banks but on the actual experience of banks that have failed in the past. I think I can give you an instance of the Bank of Morvi which is not in existence. If you care to study the balance sheet of the Bank of Morvi, you will realise the importance of the suggestion that I am making.

1745. We fully realise your suggestion. In fact, what you have suggested about the valuation is all right, but we want to know whether you can summarise the statement for the benefit of the committee?—Let, therefore, the auditors state in their certificate this fact. In its present form it

does not convey much meaning that the investments have been shown at or under the market value. That is a very important consideration. Because banks have been found to give absolutely a false idea of their assets and it is only when the doors of a bank are closed, that the shareholders and the depositors realise that the position disclosed in the past years was absolutely misleading.

1746. *Mr. Haroon*: You say that the investments of the Bank of Morvi were not at market value?—Yes, since the Bank came into existence the Bank was showing its investments in the balance sheet every year and the shareholders and depositors had confidence in the bank.

1747. Do you mean to say that on account of that fact they continued depositing moneys in that bank?—Yes.

1748. *Sir Hugh Cocke*: Can you tell me whether the Bank of Morvi was registered under the Indian Companies' Act?—Yes, it was.

1749. That Act requires how the investments are shown?—Yes.

1750. *Mr. Khaitan*: Would you also agree that if the investments appreciate in value that appreciation should be taken as profits?—No.

1751. *Chairman*: You were mentioning the points which you wanted to be put in India in the Auditors' Certificate. If you have got these points jotted down on a piece of paper, it will be a great convenience if you give this paper to us and then you might explain your points?—No, I have not jotted them down.

1752. What is your first point?—Auditors must certify that the investments are valued at or under market value.

1753. I think that proposition which you have put forward will have the acceptance of this committee?—I am putting forth my suggestion.

1754. *Sir Purshotamdas Thakurdas*: Only investments? Not the security of the banks against loans?—That comes under the heading of "Loans and advances". Here at present I mean investments, like Government securities, shares in the joint stock banks, debentures, etc.

1755. *Chairman*: What is your next point?—It is this. But I take it that you do not want me to amplify this point.

1756. You have already amplified it in your memorandum. If you want to say anything in further amplification, you are quite welcome. In regard to this particular matter you have given your reasons. You say that you consider it both unsound in theory and dangerous in practice for a bank to swell its profits by writing up some of its assets, etc. If you want to further develop that position, you are quite welcome. But I take it that you do not want to repeat the same thing?—Some repetition is unavoidable.

1757. I fully appreciate that. But at the same time you will appreciate the position of the committee as regards time?—Time is as valuable to me as the members of this committee; I want to get back to Bombay as soon as possible. Now, what I say is this. Under the Indian Companies' Act you are asked to state investments at cost or market value.

Sir Hugh Cocke: You are not asked to do so; simply you are guided, because there is a word "*e.g.*", which means "for example". There are no definite instructions.

1758. *Sir Purshotamdas Thakurdas*: The Indian Companies' Act has not explained as to what value should be given to investments. At any

rate, whether it is cost or market value, it is certainly not book value, because there is some distinction between book value, cost and market value. The book value need not necessarily be the cost, because banks have in practice a certain system, at least good banks, that they go on writing down the cost of their investments. I take it you do not suggest that the balance sheet should indicate to what extent the securities have been written down?—No, I say at cost or market value whichever is lower. That is my suggestion. I want the auditors to certify that the investments have been so valued.

1759. That means you would like them valued under market value. Is that your point?—I say whichever is lower. If the cost happens to be lower than the market value, then let them value the investments at cost value.

1760. Supposing there is an investment of 5 lakhs. I am speaking about the buildings. The Bank goes on writing down at 5 per cent. or whatever rate it chooses. Then the value may neither be the cost nor the market value. What do you say to this?—What we want is this. We do not want the book value; banks should either give us the cost of a thing or market value of the thing whichever is lower.

1761. A conservative bank manager has got in his books a building whose book value is 2 lakhs and the market value of that building is 5 lakhs. Do you require him to show the book value or not?—No.

1762. *Chairman*: You were speaking about the private and gilt-edged securities. Is it the practice of the banks to write down the value of securities so as to get the book value as distinct from the market value? —Only a few good banks have been following that practice. If you throw a glance at the balance sheet of a bank, you will find that what they have shown there is a book value but if you are given the market value, you will find a great difference in these two items.

1763. What do you want to be done?—Investments should be shown at cost or market value whichever is lower. But in view of Sir Purshotamdas' suggestion I would modify it and say "at or under market value".

1764. *Sir Purshotamdas Thakurdas*: So, you are opposed to your first suggestion?—No, I am not opposed. But I wanted to be more conservative. And therefore I would say "at or under market value". This is one thing, Secondly, it is the experience of the working of the banks in India in the past which goes to suggest that a considerable part of profits was not banking profit. It did not consist of interest, discount on exchange, but simply the writing up of the values of securities. Such being the case I suggest that such profits may be shown separately.

1765. To what end?—To show the nature of the business, whether the bank was really having banking profits or not.

1766. Do you mean to say that the shareholders would like to know the details?—Yes, that is the idea.

1767. Do you not think that by giving all these details which you now insist on the working of a bank would be disclosed to the competitors of that bank?—No, I do not think so.

1768. You are making this suggestion to obviate certain difficulties and in trying to do so, you are putting handicaps on normal business. Is it not?—Certain banks have followed this practice.

1769. *Chairman*: Can you tell us what practice in this respect prevails in London?—In the balance sheet they do not state anything, but if you will refer to the annual speeches made say, for instance by the Chairman of the Lloyds Bank, you will find him saying that the investments have been conservatively valued at market rate or under market rate; you would also find that when investments had dropped heavily during the boom period, big contingency funds were started by the English banks, to provide against depreciation.

1770. This is due to the habits of prudent banks?—Yes. I want these habits to be developed here also.

1771. You want them to be developed not by the growth of better sense and responsibility but by legislation?—Yes.

1772. What is your next item?—Loans to directors. If there is anything which is more responsible for the failure of banks in the past, it is this. This practice has accounted for the ruin of several banks in the past. This indiscriminate lending of moneys to directors and the companies in which those directors are interested should be stopped. I may point out a very clear instance of Boulton Brothers and the Alliance Bank of Simla. There are instances also of the Karachi Bank and the Bengal National Bank, which really prove that something must be done in this respect.

1773. What is your specific suggestion?—I suggest that loans to directors shall be restricted only to certain percentage of the paid-up capital of the Bank. I have pointed out that there is a loophole, owing to which such transactions might not be revealed to the shareholders. Banks can always say on the last day of the balance sheet that the percentage of the restrictions has been maintained. I want the auditors to certify that they have been satisfied that throughout the year this percentage has not been exceeded.

1774. If such loans to Directors are fully covered by securities, would you still want to impose restrictions?—Fully covered advances do not take much time to become bad debts.

1775. *Sir Purshotamdas Thakurdas*: Because of the facilities for valuing the securities?—Facilities as well as there are so many other things. When a director of a bank wants a loan for a company in which he is interested he approaches the manager of the Bank. Of course, the manager is only too willing to oblige him and has to recommend the loan to the Board. The loan is granted in the ordinary course of affairs. And as human nature goes, the manager of the Bank brings forth an application for a loan on a future occasion which is equally readily granted. These are the evils in daily life.

1776. It means that you would restrict giving loans to a director of a bank if he is interested as a director in a concern requiring moneys even though a guarantee is given?—When a Director is a member of a firm of managing agents. Merely because he is a director of a Company, it does not disqualify him.

1777. What limit will you put? I want to know what proportion of the paid-up capital would you allow?—25 per cent. of the paid-up capital.

1778. Do you say that a bank with a paid-up capital of 2 crores may give Rs. 50 lakhs in loans to Directors?—I do not mean to one director. I

mean Directors combined together. That amount will be too much for a single director.

1779. Very well. You say that 50 lakhs may be lent to directors. Rs. 40 lakhs to one director and Rs. 10 lakhs to the other director. Is that the way the loan should be distributed? I say, why not adopt the restriction that no loans should be given to directors? That will ensure the directors being free from pressure by the executive and the executive would be free from pressure by the directors?—I see practical difficulties. As a matter of fact there are only a few firms of the managing agents, I am particularly speaking of Bombay, who are responsible for several industrial enterprises in the country. If you adopt the rule that no loans should be given to the directors at all, because they are connected with certain companies, that would not be fair.

1780. I think out of fifteen banks we will find only one bank on whose board there are such directors?—Tata Sons Limited are responsible for so many concerns. There are four or five people who may be called partners in the Tata Sons Limited. If these five persons are the directors of more than one Bank, then you would make it a very difficult task for Tata Sons Limited to borrow any moneys for their concerns.

1781. In my mind there was only one Bank namely, the Bank of Baroda, on which a member of the firm was a director?—Yes, but there is also another partner of the firm, Mr. Muzamdar, who is also a director.

1782. Your point is that directors should not be given loans beyond a certain limit. I say suppose that a director takes a loan before the 31st of December and it is paid off and not shown in the balance sheet at the end of the year. The same Director again takes a loan which too may not be shown in the next year's balance sheet, what will you do?—We need not be amazed if things are done in this fashion.

No, I am simply explaining this fact for the information of the Committee.

1783. *Chairman*: What is your next point?—In certain parts of India the only security which the customers can furnish would be land or landed property. Of course, bad debts would occur and no banker will be there who has no bad debts. In such cases, I say good banks follow the practice of writing down the value of these properties gradually till they reach a reasonable level wherefore they can dispose it of, without incurring any loss. This is one side. Another side is that certain banks have gone in for landed properties as an investment. Certain part of the paid-up capital of these banks has been given up for the purchase of properties. These properties are continually shown at cost and some depreciation has been allowed. Practically the amount of depreciation compared with the amount outstanding is so meagre that I contend that such a value of an asset is entirely misleading. I would say the auditors should look into the valuation. Perhaps, the auditors will say that they are not expert valuers, I do not ask them to value the properties. What the auditors should do is to see whether it is not a valuation made about eight or ten years ago, but a recent valuation made by an expert valuer.

1784. *Sir Hugh Cocke*: Would you have the valuation for every balance sheet?—No, if the auditors find there has been a further change in the value of properties, then only, they may ask for a fresh valuation.

1785. *Sir Hugh Cocke*: Have you got to make a rule?—No. They must use their discretion.

1786. *Chairman*: What is your concrete suggestion?—The Auditors should state in their Certificate that they have been satisfied as to the recent valuation of the buildings mentioned at cost in the balance sheet.

1787. *Sir Purshotamdas Thakurdas*: What about the securities against loans? Are they not investments?—I have stated that categorically if one loan has resulted in a bad debt, then they should write it off.

Chairman: But the land and buildings come into the possession of the Bank?

Sir Purshotamdas Thakurdas: Those are the buildings belonging to the Bank.

Chairman: But they are not the securities.

Sir Purshotamdas Thakurdas: As regards that there is no question of valuing, because they belong to the bank. What I want to make clear is this; if the bank advances 50 lakhs on buildings to 20 clients, what he has to say about the valuation?—I have not yet come to that point.

1788. So, you say that these buildings in the possession of the bank, they may be shown by them in the balance sheet at their cost price whereas about the buildings against which the loans have been given you want the auditors to state that they were satisfied about the value of those buildings. Is it not?—Yes.

1789. *Sir Purshotamdas Thakurdas*: I have not made myself clear about this. Say, a bank has advanced two lakhs of rupees and in order to cover bad debts the management may keep that building for themselves for one lakh. Then the amount of one lakh will be written off as bad debt. Now, that building belongs to the bank, besides there may be a margin; all this they may include in their books. If there is any profit in this, will that be hidden profit?—What you say would be correct if banks consistently follow the practice of writing off bad debts out of profits, but that is what some of them do not do.

1790. *Sir Purshotamdas Thakurdas*: If there is an appreciation, then there is no complaint?—What I say is this that the item of 2 lakhs should be transferred from the heading of "loans and advances", when the loan is considered to be a bad debt. I state that that is not done and it is due to bad auditing.

1791. *Sir Hugh Cocke*: What evidence have you got for that statement? —If you are prepared to go into the actual cases, I am ready to convince you.

1792. *Mr. Devadhar*: Is that a general rule or it happens in all cases?— That is a general rule. What happens is this. These buildings are split up in two headings. Fixed assets and floating assets. Of course, the auditors are clever people and they can devise means to meet the regulations. Although the balance sheet may be in full agreement with the regulations, it is not a true representation of facts.

1793. *Chairman*: Then, I think with this admission of yours about the clever auditors, all your proposals however strong they may be will not be protective for the simple reason that these clever auditors will find out a way out of it. What is your next suggestion?—I may just go to the

point of fixed assets and floating assets. I can understand a bank considering its own building for its own use as one of its assets. But there is no reason why a building which has been bought as an investment not actually for its own use should be treated in the same way.

1794. *Chairman*: You want us to draft a form of certificate. Can you give us a draft indicating what you want?—You have got the assistance of auditors on your committee.

1795. *Sir Purshotamdas Thakurdas*: I want to know whether you want the auditors to value the securities or not; because other witnesses have suggested that. They have suggested that the auditors should be asked to value the securities at the time of balance sheet. What do you say?—In certain cases it will be difficult. I know auditors value stock exchange securities or gilt-edged securities but in the case of loans against landed properties they rely on the opinion of the directors who say "considered good". What I insist on is that auditors should satisfy themselves that buildings and lands are valued according to recent expert valuations.

1796. You say that in Canada banks can only appoint auditors from among a list approved by the Canadian Bankers' Association. The Canadian Banking Act provides for the Minister of Finance publishing a list of qualified auditors and lays down that shareholders shall at each general annual meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the Bank. This list is based on the lists furnished to the Minister of Finance by all incorporated institutions or associations of accountants in the country, of members of the corporation whose names are entitled to be included in the published list and the Minister has powers of selection. Would you therefore like to modify your suggestion that Government should have nothing to do with the selection and approval of the list of auditors?—No. I say that as long as the political organization of the country continues to be what it is at present, I will not leave it to Government.

1797. You refer to restrictions in Canada against non-national banks carrying on any business there. Can you tell the committee whether the provision for a majority of the directors of banks in Canada being natural born or naturalised subject of His Majesty and domiciled in Canada may not be due to the note-issue privileges enjoyed by these banks?—Banking organization of Canada consists of chartered banks and other banks. They get a license from the Minister of Finance.

1798. All these Banks have a right of note-issue?—Yes.

1799. Might it not be that the restrictions have arisen from the fact that these banks enjoy the privilege of note-issue?—May be that.

1800. As regards Australia, I understand there are 18 commercial banks in Australia of which three including the Bank of New Zealand are foreign banks with branches in Australia, three have head offices in London and only the remaining 12 are essentially Australian institutions with head offices in Australia and branches in London. Are you in a position to contradict my information?—I know that the Chartered Bank was not allowed to open their branch in Australia. There was some prejudice against the Chartered Bank. But here are cases in which there are foreign banks with head offices in London that have been allowed to transact business in Australia. I do not deny that fact, but I emphasise the exclusion of the Chartered Bank from Australia.

That is only one instance?—The Bank of New Zealand was floated specially for business in New Zealand.

1801. *Mr. Buckley*: Are you aware that the Yokohama Specie Bank is established in Australia?—I think there is a branch. But I do not know why the Chartered Bank is excluded.

I cannot tell you that at the moment. I have written to my London Office to have this information for our committee.—I will tell you the reason why the Yokohama Bank was established there. The Australian banks have no direct connection with Japan and in order to facilitate business with Japan, they have allowed it.

1802. *Chairman*: My point is that there are several foreign banks which are allowed to do business in Australia?—I accept it with the modification that Chartered Bank is excluded. The Bank of New Zealand is a commercial Bank of Australia.

1803. Is their business only confined to Australia?—Yes, their main business is certainly with Australia. They also do business with other countries, but their main business is with Australia.

1804. You suggest that every foreign exchange bank should be required to deposit with the Provincial Government securities of the market value of Rs. 5 lakhs in respect of every office in the province. It is proposed in the scheme of the Reserve Bank that the foreign banks should be required to keep a certain percentage of their time and demand liabilities as a reserve with the Reserve Bank. Will not that be a more satisfactory arrangement than your proposal to insist on the deposit of securities in respect of every branch of the foreign bank? This will require every bank in India, irrespective of racial characteristic, whether exchange banks or Indian joint stock banks, to give a deposit of certain percentage of their time and demand liabilities. This is one arrangement and the other is to require the exchange banks to deposit Rs. 5 lakhs. What is your object in requiring that they should place this additional deposit with the provincial Government?—When I make this suggestion I have no intention of making a racial discrimination. My intention is to have additional safeguards in the case of Exchange Banks.

1805. *Dr. Hyder*: You want to restrict the deposits. Is it not?—Yes, because we do not possess sufficient knowledge of the standing of the bank.

1806. *Chairman*: Are you aware that the Reserve Bank scheme provides that all the banks are required to give a statement of liabilities, etc. That will enable the Reserve Bank to know the financial position of these banks?—That is not the case. For instance, the Bank of Taiwan failed. It was owing to the liabilities having been incurred in Japan that calamity was brought upon them.

1807. You mean to say that the bank business outside India will not be known to us. Is that so?—Yes.

1808. Here we are concerned with the position of the banks in India?—How are you going to ear-mark all the assets? Suppose a Japanese bank goes into liquidation, and it has certain assets in India as well as in Japan and elsewhere. Then, in that case under the law you cannot ear-mark its assets to meet debts in India.

1809. You want that the assets of the foreign banks in India should be allowed to be ear-marked for their Indian liabilities?—Yes.

1810. *Mr. Khaitan*: Under the Reserve Bank Act if a bank deposits 2½ per cent of time liabilities and 10 per cent. of demand liabilities, will that meet with your requirements?—Yes.

1811. You consider that 2½ per cent. of time liabilities in the case of foreign banks would be sufficient protection for deposits?—It is not but still it would be some protection.

1812. *Chairman*: Why do you want Rs. 5 lakhs. I do not mean any aspersions but to take an example, let us assume that the Chartered Bank pays Rs. 5 lakhs in respect of their head office and branches. Is it your proposition that this money will adequately safeguard the interests of all the depositors in India, if the Chartered Bank failed—which I hope it would not?—It is a question of degree. But there should be certain adequate safeguards.

1813. *Mr. Khaitan*: If a foreign bank establishes itself, is there not a likelihood that it may be able to remit moneys out of India when it gets into difficulties abroad?—It is bound to happen.

1814. So, there should be some provisions whereby the position of the depositors will be safeguarded?—Yes, you are supporting my statement.

1815. *Chairman*: You say that the foreign exchange banks should be required to pay a special tax of ½ per cent. on all fixed deposits received in India. Is this suggestion based on the practice or legislation in any other country of the world? Will not the tax proposed by you increase the cost to the exchange banks of the deposits received by them and consequently add to the charges to the clients of exchange banks for advances made by these banks?—Not exactly in the same form but there is some legislation in Spain and in Portugal.

1816. *Dr. Hyder*: You hold these countries as models in the banking world?—Yes, considering the present conditions in India, similar measures will be helpful to us.

1817. *Chairman*: You say that sometimes a bank's credit is sought to be damaged by a bear raid on its shares on the stock exchange. Can you give the committee any concrete instance where such damage has been attempted or done?—Yes, it is correct. I would quote the instance of a local Bank—I mean the Bank of India—against the manager of which prejudice was sought to be created.

1818. That was a case arising out of the political reasons?—Yes. People started selling their shares. It has happened in the case of other banks also. I think it would be advisable to adopt the practice under the Leeman's Act.

1819. You suggest the creation of an appointment of Registrar of banks in each province. Can you summarise for the committee the duties that will be attached to this appointment and whether they will be sufficient to employ an officer whole-time?—The thing is this. Banking statistics as such hardly exist in India. Therefore a statement should be compiled in a convenient and intelligible form.

1820. The function of this Registrar should be to compile all these statistics?—Yes.

1821. Is it possible for you to say whether this officer should be whole-time?—That depends on the increasing work connected with banking in India.

1822. You suggest the employment of the funds in the Paper Currency Reserve and Gold Standard Reserve in London to approved Indian banks against the deposit of gilt-edged securities. Is it your intention that all such loans will be subject to the laws regulating these reserves in any scheme of currency and banking reform?—Not exactly. I think it is an established fact that certain portion of the sterling reserve of India which is kept in London is lent out in the London market. The Secretary of State keeps a list of approved names and money is lent out from the available balance to these approved borrowers.

1823. You may take it from me that the issue of these loans is subject to the laws regulating these reserves. There are definite laws which regulate these. For instance, Currency reserve is subject to certain legal restrictions.—If there are any such regulations which obstruct our way, I would like to change them.

1824. Would you like to change the Currency Act?—I think to my mind it is better if we change the percentage to make it possible for you to loan moneys to approved bankers against securities.

1825. *Chairman*: You say that the Indian Institute of Bankers offers a ready made agency for bringing the different banking groups together. Is not the membership of the Indian Institute of Bankers open to accountants and others, besides banks, and will it not be necessary to have an institution intended for co-ordinating the activities of bankers confined solely to bankers? What kind of problems could be discussed at a meeting attended by accountants and others?—Accountants could certainly throw some very illuminating light on banking problems.

1826. *Chairman*: You say that Indian banks should be invited to join as members of the Exchange Banks' Association. Is not the business of the Exchange Banks' Association mainly concerned with the purchase and sale of foreign exchange? Can you give any instance of an Indian bank dealing in such business which applied for admission to the Association and which was refused?—The Central Bank is not a member and the Tata Industrial Bank was not admitted as a member of the Exchange Banks' Association. The Tata Bank's bills in London did not get the privilege of being re-discounted at the Bank of England. That means that the Tata Industrial Bank was treated as a foreign bank in England.

1827. I simply want to know whether any of the Indian banks applied for admission and were refused admission.—It would not be befitting the dignity of the Indian banks to apply for admission when they knew that there was the certainty of their being refused admission. I only wish to stress the racial element in the whole thing.

Chairman: We have already had a full discussion of it with Mr. Pochkhanawala.

1828. *Mr. Buckley*: You say that they wanted to become members and were refused admission. This is not borne out by what they say.—How can they apply under the constitution of the Association as it is.

1829. But the constitution does not stop any Indian bank becoming a member?—The Tata Industrial Bank was not admitted.

1830. *Chairman*: You say that under the leadership of the Imperial Bank a credit list such as that established by the Bank of England should be inaugurated in India. Will not the fact that the Imperial Bank is at present competing with other banks for commercial business militate

against your proposal?—If other banks are suspicious of the Imperial Bank, then this function should be left to the committee of the Clearing House banks which is expected to be impartial though it is under the auspices of the Imperial Bank.

1831. *Mr. Khaitan*: You have advocated the establishment of an industrial bank for the purpose of developing Indian industries. Do you think that the mere grant of financial facilities will greatly help the establishment of industries in India?—Not simply the grant of facilities. I have suggested a Commercial Intelligence Department which would collect the necessary data to study the possibilities of industrial development in different parts of India, and the special talent which we do not possess can always be bought.

1832. I am not at the moment thinking of Indian talent; I have always been a great believer in Indian talent. But do you not think that the development of Indian industry is greatly hampered by fear of competition from outside?—Indian industries will have to be protected. But under the present fiscal policy of Government it is not possible.

1833. So you would have a change in the present fiscal policy of Government?—Yes.

1834. Do you think that if the promoters of industries in India knew that they could rely on Government for adequate protection in cases of necessity, there would be better development of the country's industries?—I think so.

1835. In answer to a question by the Chairman you were good enough to say that in Germany industry preceded banking. Are conditions in India similar to those in Germany?—No, our circumstances are different.

1836. What are our circumstances?—Our circumstances are that we are not masters in our own house.

1837. Do you not think that qualifications of the various directors on the board of Management should differ according to the different kinds of responsibilities assigned to each?—It would be difficult to departmentalise like that in actual practice.

1838. Is it not a fact that although some of the Directors may not be very efficient in conducting the affairs of a bank, yet they have a name and reputation which would attract large deposits?—I would not advocate that. I would only have on the Board men whose integrity and honesty inspired confidence in the public; I should not be content with mere figureheads.

1839. Do you assume that such persons are otherwise absolutely ignorant of banking conditions?—If they combined big names with intrinsic merit they would be ideal directors.

1840. Supposing you had legislation prescribing the qualifications of directors, would not such persons be absolutely debarred?—I consider it unnecessary to prescribe any legislation for qualifications of directors.

1841. So your recommendation in that behalf will be of a recommendatory nature and not of a mandatory nature?—Yes.

1842. You have mentioned that profits on investments and gilt-edged securities should be shown separately. Supposing such appreciation is not taken to profits as is the present practice of some banks would you like the idea?—That is sound banking as I understand it.

1843. Do you want that if there has been any depreciation in the value of securities, that should be taken into account in forming their balance sheet?—I think that is a good policy.

1844. Would you not allow the bank to take into account any appreciation if that happens?—Unless the appreciation is of a permanent character, I would not include that.

1845. How would you value the various kinds of securities with a bank?—At the market value, because after all that would be the correct presentation of the bank's position.

1846. Then as regards Bank premises it does not matter on what valuation it is held. You have got no other alternative scheme to suggest?—I am prepared to make alternative suggestions.

1847. As regards loans to Directors, I note you are against the proposal. Take the case of the Imperial Bank. I know it has got certain directors who are connected with very big firms dealing in jute as managing Agents. Therefore, would you debar all these jute mills from getting any loans from the Imperial Bank?—In such cases, it should be for them to decide whether they should resign from the directorate of the Imperial Bank if they want to draw out from it funds for their jute concerns, or take no loans at all.

1848. Would your suggestion also rule out the policy of the Imperial Bank of India in regard to such matters?—I have no particular information in regard to these matters.

1849. *Mr. Mukhtar Singh*: You say that banks have failed in India as in other countries on account of fraud and dishonesty, etc., and you say that some of them could have been saved by timely assistance. Can you give the names of such banks that you have in view?—I refer to some of the banks that failed in the Punjab in 1913. I do not know whether it was the People's Bank, but I particularly refer to that bank which was refused temporary assistance by the Bengal Bank.

1850. Could you tell me the names of such banks that have failed since the inauguration of the Imperial Bank Act in 1920?—I know in the new Act a new section was added which enabled the Imperial Bank to render assistance to such concerns who were threatened with imminent failure. The only bank that has failed since the crisis is the Alliance Bank of Simla, which could possibly have been saved if it had been helped earlier. In this case also the Imperial Bank could not help in the matter as the new rule had not come into force. After the amendment of the Act has come into force, no such failures have taken place.

1851. You say that the inauguration of the Imperial Bank was hailed by many as the first and important step towards the development of a strong central or state bank in India, but the realisation of such hope is rendered impossible by the Bank having developed vast commercial and trading connections through some loop-holes in the Act of 1920. To what loop-holes are you referring?—I am referring to the granting of loans by the Imperial Bank on two signatures. For instance, the Imperial Bank can advance money on deferred shares as well, provided the promissory note is signed by two persons.

1852. *Mr. Lamond*: The Bank does not do so?—I thought it was so. May I draw your attention to the Imperial Bank Act Schedule I (Part I) (v) which reads as follows:—The Bank is authorised to carry on and transact

the several kinds of business hereinafter specfiied, namely, * * * (v) accepted bills of exchange and promissory notes endorsed by the payees and joint and several promissory notes of two or more persons or firms unconnected with each other in general partnership. * * *

1853. *Sir Purshotamdas Thakurdas*: Is it a fair inference that you have made that the Imperial Bank has advanced money on Tata Deferred Shares?—I am not at all referring to that. My point is that the Imperial Bank is authorised to lend funds on the signature of two people without any collateral security.

1854. *Mr. Lamond*: Have you any idea of the by-laws of the Imperial Bank?—They are the close preserves of the Bank's executive. How can the public know anything about them? Is it your contention, that the by-laws negative this rule?

Sir Purshotamdas Thakurdas: By-laws do not change the law at all. Discounting of bills is the main business of the Imperial Bank. Its Hundis which amount to Rs. 7 or Rs. 8 crores are accepted only on two signatures without any collateral security at all.

1855. *Mr. Mukhtar Singh*: Do you not feel that in order to promote the banking habit, some sort of propaganda is necessary?—I think no propaganda would be as effective as the spread of literacy in the country.

1856. Will not propaganda have such effect? What I mean to say is that if responsible public men's names were included in the directorate of a bank, will that not in itself create confidence in the bank and will be a sort of propaganda as well?—I have already said that unless this qualification is supplemented by something else I would not support the suggestion.

1857. Has not the Government of India some sort of constitution to help students who go to England to study banking?—Not so far as I know The Government of India grant some scholarships for taking up the study of some technical courses.

1858. *Dr. Hyder*: I have experience of some Universities. If you get a Government scholarship you can study anything you like. You know Mr. Shroff that there are several Indians undergoing training in the London School of Economics?—But the Government of India have not yet laid down any specific scholarship for banking education abroad.

1859. *Mr. Devadhar*: With regard to the industrial banks you suggest that the period of debentures should range from 10 to 25. I think you know that in some foreign countries sometimes debentures extend for periods of over 50 years to lighten the burden. Would you be inclined to favour that suggestion?—I am referring to debentures already issued and I do not think it will be a marketable security, if you issue debentures which cannot be redeemed for centuries.

1860. My point is this, for the proposed land mortgage banks would it not be advantageous for the small agriculturist to take up debentures, the repayments of which may be spread over large periods of time?—But I do not think it will be suitable to have industrial debentures to run for a century or more. At present there is not much need of getting facility by way of more capital by the co-operative movement from outside sources. The movement is not suffering for want of capital to meet its current requirements, such as short period loans to its customers. As a matter of fact, I think many provinces in this country are in such a position.

Mr. Mukhtar Singh: Do not assume it to be the case in all provinces.

1861. *Mr. Devadhar*: What I want to indicate is that there is plenty of money at present available to meet short term requirements. May I ask whether you will agree to at least a portion of the amount of Rs. 8 crores which the Imperial Bank keeps at its disposal practically idle, might be utilised for the liquidation of old debts, etc.?—I would not agree that the Imperial Bank should be asked to advance money for the liquidation of past indebtedness.

1862. You have referred to the shortage of capital for the development of subsidiary industries. Everybody is telling us that plenty of capital will be available if small industries could be started in the country. Have you any instances of small industries not being sufficiently financed?—I have heard that small industries such as the manufacture of oils, have not been able to get the necessary facilities. Banks say that they have not got the necessary information about the industry and so they would not finance them.

1863. Just as you advocate the formation of an industrial bank, would you be in favour of starting smaller banks for the financing of subsidiary industries?—I have no objection to the suggestion.

1864. *Chairman*: Do you not think that the greater need of India at the present is to form banks of that sort to organise smaller industries rather than diverting attention to the formation of a big bank for financing big industries. So far as the Cotton textile industry is concerned there is no lack of finance and the mills are in a sound condition. Secondly, you talk about the Iron and the Steel industry and here, apart from the two concerns which you have mentioned there is a third concern run by the Mysore State. There is no lack of finance and no difficulty in finding the market for the outlay. Thirdly, you spoke of the Hydro Electric Industry, and you know that three provincial Governments of the Punjab, United Provinces and Madras have already taken action to develop their hydro-electric schemes. That being so, would you not admit that attention should be more greatly diverted for encouraging smaller industries?—I am sorry I do not agree. The bigger industries are equally in need of help as smaller industries.

1865. *Sir Hugh Cocke*: As regards the auditor's certificate, you say that it is at present very largely vague and you advocate its being made less non-committal. Have you any suggestions to make about making the certificate less non-committal as you desire?—Yes, in the three directions I have already suggested. I think the present wording is meaningless.

1866. *Sir Hugh Cocke*: Mr. Chairman, I suggest that if Mr. Shroff has an alternative certificate to put forward, he should produce it, but in the absence of it, it is no good finding fault with the existing form of the auditor's certificate?—It is for the lawyers to do so and I suggest that the form should be suitably amended.

1867. *Mr. Lamond*: On page 3 of your memorandum you have said, "In several cases banks insist on the additional guarantee of the managing agents over and above the stocks hypothecated to them". What do you mean by hypothecation in that statement?—I mean they are pledged to the bank.

1868. *Mr. Buckley*: You say on page 26 of your memorandum that you think that India is grateful to the exchange banks for financing her foreign trade. And yet you suggest that certain restrictions should be imposed on their operations; and no doubt in justification of this you say that India

is perhaps one of the few countries which have kept open their doors to any foreign company doing banking business. Do you not think that this phenomenon is due, more than anything else, to indigenous banking being highly developed in other countries?—I should like in the first place to correct your impression that India is grateful to the exchange banks for financing her foreign trade. I do admit that exchange banks have rendered very great service in financing her foreign trade; but I am not going to give up my right as an Indian to develop national institutions.

1869. *Sir Purshotamdas Thakurdas*: On page 29 of your memorandum you propose that banks alone should be the shareholders of the Reserve Bank. Do you think that all the capital required by the Reserve Bank should be put up by the banks?—I want the Reserve Bank to follow the American principle.

1870. You object to the Legislature having any representation or any voice on the Reserve Bank; but you agree that the Legislature may be given an advisory committee. I wish to ask whether you feel that unless this sort of constitution is available, the idea of forming the Reserve Bank should be dropped?—I insist on that.

1871. In your written statement to the Bombay Provincial Committee you devote a number of paragraphs to the importance of the indigenous banker. You have shown a good deal of solicitude on his account. You are very anxious that he should be brought back into his own and that he should be allowed to occupy his right position in the Indian banking world?—Not exactly, Sir. My idea is that some means should be devised by which the indigenous banker could be brought into close contact with the rest of the banking structure of the country.

1872. Some provincial committees have suggested that the indigenous banker should be put on the same footing as the joint stock banks provided that he agreed to certain restrictions, restrictions such as the auditing of his accounts by the Government or certified auditors. Have you any views about that?—I do not think these restrictions will be of a suitable character for them.

1873. Your apprehension is that there may not be many forthcoming to be registered as bankers?—Yes.

1874. But if anybody did come forward you would have no objection to it?—No.

1875. In regard to the cost of management of a bank, it would be difficult to ask you to give specific instances, but I wonder if you can indicate to us in short the particular heads under which we may look out for economy in the cost of management on the lines you have given?—I have prepared a statement giving the cost of management of some of the more important banks in India showing the percentages in the cost of management. Now take the Imperial Bank, for instance. I might be permitted to say that the Imperial Bank is not earning what it should. The cost of management of the Imperial Bank is extravagant. And the cry for Indianisation of which we hear so much in these days does not find itself practically confirmed in the case of banks which are purely managed by Indians, on the figures that I have collected. Sometimes we get very peculiar cases. A small bank like the Union Bank finds its cost percentage of 4·3 against its deposits, while the cost percentage of a fairly big-sized bank like the Bank of India is 0·95.

1876. *Dr. Hyder*: Is that a fairly big bank, the Union Bank which you are referring to?—I am trying to show the peculiarity of this bank with others. This Union Bank has deposits only up to about Rs. 27 lakhs while its capital is Rs. 40 lakhs. In the case of the Imperial Bank of India the cost of management is about 2 per cent. on its deposits as compared to ·95 of the Bank of India, 1·82 of the Central Bank of India and only ·9 of the Punjab National Bank. There is one thing which is very peculiar. One Indian bank under European management shows the highest percentage of cost and that is the Allahabad Bank.

1877. *Sir Purshotamdas Thakurdas*: I do not want to change your view at all, but I wonder whether you have borne in mind the inference that banks which have several branches cannot make as much profit as banks which have none or not many branches?—I agree.

1878. If a bank is compelled by legislation to maintain some branches, then what can you do?—If you are referring to the Imperial Bank, I might say that during the last so many years that Bank has had good advantage with Government money placed at its disposal that it cannot complain in any way.

Take another instance, the case of the Punjab National Bank and the Bank of India. The former has more branches than the latter. There is another standard of judgment. Look at the size of the banks. The Punjab National Bank has deposits of only about half of the Bank of India. Therefore, according to the basis of your calculation, the Punjab National Bank is run on extravagant lines. Is that what you mean to say?—Yes.

1879. Have you any concrete suggestions to make for economising bank management?—The establishments maintained by banks are mostly top-heavy. Then the scale on which remuneration is paid is simply extravagant in several cases.

1880. If it is not too much trouble for you I request that you might send in a memorandum covering your view-point on these matters?—I shall try to do so.

1881. *Mr. Devadhar*: These banks which are managed by the Indian staff, you say are more costly than European managed ones?—Yes.

1882. Then are we to infer that these institutions managed by Europeans are more economically managed?—What I say is that Indian managed banks could still further lower their cost of management.

Chairman: The only inference from your answer is that Mr. Devadhar's inference is quite reasonable.

1883. *Mr. Devadhar*: Supposing an indigenous banker and a co-operative institution exist in one place, would you give more facilities to the indigenous banker in preference to the co-operative institution?—In several ways they will be doing different kinds of business.

Chairman: Mr. Shroff has given his definition of a 'bank' and to institutions which satisfy his definition of 'bank', he would give the same treatment.

SEVENTH DAY.

Monday, the 25th August 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*),
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Mr. R. W. BUCKLEY.
Mr. F. V. RUSHFORTH.	Mr. G. K. DEVADHAR, C.I.E.
Sir HUGH COCKE, KT.	Choudhri MUKHTAR SINGH.
Dr. L. K. HYDER.	Seth Haji ABDOOLA HAROON.
Mr. W. LAMOND.	

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Professor Sohrab R. Davar, Mr. K. R. P. Shroff and Mr. J. J. Kapadia representatives of the **Bombay Share-holders' Association, Bombay,** were examined. (Prof. Davar acted as the principal witness.)

1884. *Chairman (to Mr. Kapadia)*: You are the Secretary of the Bombay Shareholders' Association?—That is so.

1885. Could you tell us a little about the functions of this Association?—The principal function of the Association is to protect the rights and interests of share-holders of Joint Stock Companies and the investing public. We started the Association in September 1928 with Sir Ibrahim Rahimtoola as the Chairman of the Association and with two Vice-Presidents, namely Mr. K. R. P. Shroff and Mr. A. M. Kajiji, an Ex-Judge of the Bombay High Court; latterly Principal S. R. Davar was appointed a third Vice-President. We have a written constitution and I would like to tender to the Committee a copy of it and a copy of the last annual Report. We hold quarterly meetings, we circulate the report of the managing committee each quarter to members and we meet at the end of each quarter, when matters affecting the well-being of share-holders are discussed. In addition, we hold our annual general meeting. Our principal activities are in three directions: *first*, in all general questions affecting the economic life of the country we take interest, provided we find that they have got some direct bearing upon the well-being of the share-holders. The *second* is in regard to the amendment of the Indian Companies Act. To that end we have so far addressed a series of communications to the Government of India in the Commerce Department, pointing out the loop-holes in the present Indian Companies Act. The *third* is to watch the administration of affairs of several Joint Stock Companies and to take concerted action to see that maladministration, where it exists, is weeded out. There are nearly 550 members on our roll at present.

1886. Are you doing any propaganda work among the share-holders, *i.e.*, anything to train up the share-holders in the proper appreciation of their rights?—Yes. As soon as the report of a Bombay Joint Stock Company is received, I as Secretary go through it and if I find that there is anything upon which the share-holders should be enlightened, we send a notice in the public press asking the share-holders to meet informally at the office of the Association, where the points arising out of the balance sheet

are discussed, and we advise those members who are the share-holders of that company to attend that company's meeting and put questions to the management so that the points which could not be properly ascertained on a perusal of the balance sheet may be elucidated. This is in one direction very important educational work which the Association has undertaken. We also send articles to the press. I myself have so far sent something like 50 articles to the press on different subjects. Various other members also send articles to the press and the share-holders are supposed to read them. We are thinking of starting a journal, but in the present position of the Association, there are certain difficulties, but we hope to start one for educating the share-holders.

1887. *Dr. Hyder*: How does the Association maintain itself?—From their members' subscriptions. If they find that there is going to be any deficit, I daresay the members of the Managing Committee and other members will guarantee the deficit.

1888. *Sir Hugh Cocke*: What is the subscription?—Rs. 10 a year.

1889. *Chairman*: Have you among your members people from outside Bombay?—Yes, many. We have members from places like Quetta and Baluchistan.

1890. In para. 2 of your memorandum you say that in order to obviate any difficulty as regards the use of the word 'bank' the Industrial Bank should not be called as such. Will you kindly explain what difficulty you contemplate?—The difficulty is that to the man in the street the word 'bank' generally is a commercial bank and he mixes the one with the other. In the case of the industrial bank which we have suggested should be formed, we have specifically stated that the industrial bank should not be allowed to take deposits on current account and should not have the cheque book system, but deal with long term deposits. We think it would be more safe if the industrial bank is distinguished by a special name, *e.g.*, industrial corporation.

1891. You know that in other countries industrial banks also come within the category of banks. Banks may be commercial banks, industrial banks, etc.?—That is so, but our country unfortunately has not had experience of industrial banks yet, and particularly of industrial banks proper: our theory is that the average investor who deals with a bank may put his money in an industrial bank without realising the risk which he is running, because there is no doubt that an industrial bank is the more risky concern than a commercial bank.

1892. You are no doubt aware that industrial banks, though on a small scale, are actually in existence in different parts of this country?—On a very small, perhaps insignificant, scale. I know that when the Tata Industrial Bank was working, a good many men, and intelligent men, from the bar used to confuse the Industrial Bank with a commercial bank and I had to tell them the distinction.

1893. I think you said that you do not want your industrial bank to issue cheques?—Our opinion is that the current account system should not apply to industrial banks.

1894. But would you object to an industrial bank giving a loan to some particular concern by issuing a cheque in the client's favour?—There will be no objection to a cheque drawn upon some other banker with whom the industrial bank may have an account.

1895. Your point was that as the industrial bank would not be allowed to receive current deposits, automatically it would not be able to issue cheques against those deposits?—Yes. There is another good reason. In Hart's Book on the Law of Banking, the author says that the only proper or perfect definition to distinguish a banker from an ordinary financing corporation or money-lender is to say that a banker is one who keeps current account for his customers and allows him to draw cheques upon himself; that definition was in our mind when we suggested this.

1896. Later on you have said that legitimate banking business should be restricted to the type of business you are referring to?—That is to say, commercial banking.

1897. In that connection you have made certain proposals about imposing certain regulations on banks which are restricted to legitimate banking business?—Yes.

1898. Am I to understand that your view is that an industrial bank or an industrial concern would not be subject to similar regulations?—There would be something common to both; when we say that a bank should be legitimately restricted, we do not have in mind an industrial corporation.

1899. I fully understand that in regard to the restriction on the nature of business. But my point was that you have also proposed certain regulations in regard to the working of the bank, with regard to directors, etc.?—Yes, these regulations would apply equally to an industrial corporation as far as possible.

1900. You say that ware-house companies will have to be started with substantial capital to command the confidence of the banks as to the reliability of their warrants. (*a*) Will it not be sufficient for the purpose of inspiring confidence to have the ware-houses governed by a ware-housing law and subjected to Government inspection? (*b*) Will you tell the Committee what the ware-houses will do with the large capital you want them to possess?—As these ware-house companies are going to take large quantities of goods and issue warrants on which the merchant or the manufacturer is expected to raise money from banks, their position should be so financially sound that a banker would be confident to rely upon the warrant to advance money. The answer to the alternative which you suggest is that Government inspection will to a certain extent inspire confidence in a banker who advances money on warrants issued by ware-house companies, but the banker looks more to financial stability rather than to the consolation that the bank is being inspected from outside independently. Another reason is that it is not necessary that these ware-house companies should call all their capital. Suppose a ware-house company gets a capital of 2 crores of rupees subscribed, it may call up a few lakhs that it may immediately require for building of the ware-house or other working expenses. The balance of uncalled capital in the hands of share-holders on which the warehouse company will not pay any dividened would, in our opinion, be a sufficient security from the banker's standpoint to inspire confidence. There is yet a third reason, which is that if the ware-house company has a large capital, it may be that the ware-house company itself may advance money on the goods that are deposited with it.

1901. Is it your intention that the ware-house company will actually possess the goods deposited in the ware-house?—They will keep the goods

and issue warrants in any quantity that may be convenient to the merchant or the manufacturer, and each warrant becomes a sort of negotiable security just like dock warrants. These warrants could then be easily deposited with bankers and money raised. The objection in the case of manufacturers of textile mills in Bombay is that they do not deposit or hypothecate their stocks for the simple reason that they are afraid that if the people from whom they receive deposits come to know that their stock is mortgaged with a bank, perhaps their credit may be affected and they may withdraw their deposits. Apart from the question whether this fear is justified the ware-house system would obviate this objection, because no one would know how much of the stock has been pledged or mortgaged with a banker.

1902. Supposing a mill hands over some of its production to a ware-house company. After it has been so handed over, will the goods still remain the property of the mill or will it become the property of the ware-house company?—The ware-house companies merely act as agents.

1903. Therefore from that point of view, they really do not require any capital. If they want thereafter themselves to advance money on the deposits of these goods, they will practically begin to function as an ordinary commercial bank?—Yes, I quite agree, but I might put it this way. Even though you may not call up the whole capital, we must have a large capital to give them financial stability in the eyes of the banker, because a banker has to rely on the warrant for the quantity and nature of the goods which are stocked with a ware-house company, and to see that the ware-house company is responsible. Suppose the warrant is false and gives a wrong quantity, the ware-house company will have to make good the money. The idea is that the banker should trust the ware-house company and should at the same time see that, if there is something wrong, he could recover the money from the company.

1904. In the case you mention would not the ware-house company take adequate steps to safeguard itself against losses of the particular character to which you refer?—If ware-house companies are to be started by independent persons as Joint Stock companies without any control, they may or they may not. It will be entirely left to their option.

1905. Are you aware of the operations of the Bengal Bonded Ware-houses Association, Calcutta?—No.

1906. You would not be able to say whether the ware-house companies possess a large capital or not?—They need not necessarily have their capital in cash. Uncalled capital is a first class security.

1907. I was pursuing the question from the point of view of practicability. If we insist that the ware-house company must have substantial capital, though a good deal of that capital may be uncalled capital, is there any practical chance of people thinking favourably of such an idea?—We suggest that if a ware-house company is started, it should even be encouraged by the State in the interests of local finance.

1908. That is, the State should guarantee to provide a certain portion of the capital?—It would be much better.

1909. That is the sort of subsidy you have in view?—I would prefer it.

1910. Is there any other form of subsidy you have in view?—Dividends might be guaranteed, say, 4 per cent. That is practically the same. We

would locate these ware-houses in big towns like Bombay or Calcutta, where there is a need for them, particularly in Bombay where a lot of not only mill and other stuff is ready to be financed, but also imported goods.

1911. What do you call a substantial capital, one crore or 10 crores?—That would depend upon the location of the ware-house company.

1912. We are talking of Bombay?—One crore would be quite sufficient.

1913. Of which, how much would you call up?—That would depend upon the cost of the ware-house, its working expenses and on how many ware-houses there would be.

1914. *Sir Purshotamdas Thakurdas*: Do you know of the Bombay Port Trust system?—Yes.

1915. Would that sort of thing do or do you want anything stronger or more elaborate than that?—The Port Trust system is all right.

1916. You know that they do not guarantee quality; they only say ten bales of jute, or ten bales of grain. Therefore what I am trying to point out is that the *raison d'etre* of your capital may not be material?—But the Port Trust is a very substantial institution.

1917. I am only talking of their guaranteeing the *number;* all that they guarantee is 10 bags of grain; whether the bags contain wheat or mixed wheat or barley is a matter of detail. That is the commercial party's own look-out?—Yes.

1918. *Mr. Lamond*: Would you make the ware-house company responsible for the condition of the goods?—Certainly; that is why we require a substantial capital: otherwise any one would start a ware-house company.

1919. *Sir Purshotamdas Thakurdas*: That is why I asked whether you know about the Bombay Port Trust ware-house and whether that would do for your purpose?—I do not think so.

1920. You must have something with a greater security?—Yes, otherwise the banks will not freely advance against the ware-house company.

1921. Why do they do it in the case of Port Trust receipts if the security is inadequate?—(Mr. K. R. P. Shroff) Because the goods are noted in the shipping documents and there are very few chances of committing a fraud. There are greater chances of committing fraud in the case of a local ware-house than in the case of a Port Trust.

1922. Therefore the administration of the ware-house should be such as would ensure confidence in the eyes of the public?—Yes.

1923. Then these elaborate precautions which you want may not be necessary?—Yes.

1924. *Mr. Devadhar*: You think it is absolutely necessary to have these institutions controlled by Government to create confidence?—No, we did not say 'controlled'.

1925. You want the institutions to belong to Government?—Not particularly to the Government. If it is inspected by Government officers, so much the better it would be for creating confidence in the eyes of the public.

1926. Do you not think the *sine qua non* for creating confidence is some inspection by Government?—Some independent party at least; there cannot be a better party than Government in such cases.

1927. You would not entrust that kind of thing to a non-official agency?—No, that would not create so much confidence in financial circles, unless it is a substantial concern with a large capital.

1928. *Mr. Khaitan*: You said that the ware-house should guarantee the conditions of the goods. You know that there are various kinds of merchandise which are liable to inherent deterioration, *e.g.*, grain. Would you expect the ware-house authorities to guarantee the condition of such goods?—I cannot say.

1929. *Sir Purshotamdas Thakurdas*: You said that the agency administering the ware-house should be such as would create the same confidence in the public as the Port Trust administration does?—Yes: supposing I am a cotton merchant and I go to a ware-house company with 500 bales of cotton, 100 Oomra, 100 Broach, 100 very fine quality Bengal, etc., it would be quite legitimate for me to call upon the ware-house company to declare in the warrant the quality of the goods to enable me to draw from the banker.

1930. *Mr. Khaitan*: You mean that the ware-house authorities should go into a little more detail than the Port Trust authorities do?—Yes.

1931. *Sir Purshotamdas Thakurdas*: Do you expect them to indicate the different grades of cotton fully?—In view of the difference in price of these two staples, *Oomra* and *Broach*, it is certainly to the interest of the merchant that the ware-house company should declare the quality to enable him to draw the higher price from the bank.

1932. What is the difference in price between *Oomra* and *Broach*?—I think it is from Rs. 30 to 50.

What is the difference in price for *Oomra* higher grade and lower grade?—I do not know.

1933. It is at times about Rs. 50. Therefore a certain amount of risk has to be taken by the men who handle these warrants?—There must be safeguards provided.

1934. *Chairman*: That being so, we come back to the point from which we started, *viz.*, apparently this company will not require a large share capital?—Unless they themselves advance part and employ their capital. It would not be absolutely necessary to have a substantial capital, but if they have it, so much the better.

1935. *Ch. Mukhtar Singh*: Would you hold the ware-house company responsible for the condition of the goods?—I prefer they should be responsible. I would go further and say that there is no reason why a company with, say, 2 crores of capital should not have its own experts who would draw samples of various goods and fix the quality and then issue warrants: the banks would then lend with greater confidence. Substantial capital does not mean that the company should have it in their own hands. Supposing there were shares for Rs. 1,000 of which only Rs. 200 had been called, you pay dividend on only Rs. 200, and the banker knows there is so much capital still available.

1936. *Seth Haji Abdoola Haroon*: Do you not feel that it would help the cotton mills also?—Yes, at present the cotton mills find it very difficult to get finance. The Managing Agents of cotton mills have frequently told us that they could get loans only when they would give substantial

guarantee. If we have ware-houses, that will simplify the question of finance.

1937. *Ch. Mukhtar Singh*: Will it mean creating one more middleman?—No, it would remove that agency.

1938. *Seth Haji Abdoola Haroon*: You are suggesting that the ware-house system should be established both in Bombay and other commercial centres?—In most of the principal towns.

1939. What is your opinion about starting these ware-houses in the interior? Because the Zemindars and producers are at present complaining very much that when their crops commence to go in the bazaar the market generally goes down. What is your opinion if this system is extended to them?—I say in those localities where large quantities of produce are available, the ware-house company should have branches there.

1940. You have mentioned this system in respect of the mill industry. But in my opinion it is more necessary in the interior, for instance, Lyallpur and some other places. Is it not?—Wherever there is a need for ware-houses with a view to have finances for the local produce, we would certainly say it should be started.

1941. I think these people suffer more than the mill industry?—Perhaps, it is because they have to pay heavier rate of interest to local money-lenders and they may save this by depositing their warrants and receive their finances.

1942. *Mr. Lamond*: It happens that the mills have their godowns, what will they do with them?—If they find moneys on warehouse warrants they would not keep those godowns.

1943. But will they appreciate the idea of having ware-houses?—Once the mills find that the facilities are available through these ware-houses, those mills who have to borrow moneys will appreciate the idea. The Tariff Board in their report have suggested very strongly about these ware-houses.

1944. *Mr. Devadhar*: In answer to Mr. Haroon's question you said that you would approve the idea of having ware-houses in the interior for the benefit of the zemindars. Will it be helpful if these warehouses are started on the co-operative basis?—We have not thought over this point.

1945. *Sir Hugh Cocke*: You have said in answer to the question by Mr. Haroon that in the Bombay Presidency and also up-country, ware-houses should be started. Would you advocate one ware-house company with several branches or not?—We think we should have one ware-house company with branches in different provinces. It is advantageous because the stability of that company will be more in view of the fact that they will have put more capital.

1946. If a large capital is required, the storage fee will have to be rather high to meet the expenses?—As long as the system would help to decrease the cost of finance, we do not mind it.

1947. I think that will necessitate increasing the cost?—No, as I have told Mr. Haroon in reply to his question, at present agriculturists in the interior have perhaps to borrow moneys at a high rate from the local money lenders and if they go to the bank and get moneys at a cheaper rate, that would help them to lower the cost than increase it.

1948. *Chairman*: If your idea to which you just referred is pursued, will not there be an interference with the development of facilities given

on the co-operative basis to which Mr. Devadhar has alluded?—I say it would be still open for the Co-operative Societies to open their own ware-house if they chose. That will be an additional help to the co-operative enterprise.

1949. I am not talking about Bombay. You said that the ware-house company would establish their branches at various centres. I say if that happens, will that not interfere with the development of the facilities given by the Co-operative Societies in particular agricultural centres?—I should think not, because the Co-operative Societies, in my opinion, would be at a great advantage, as they work on a sort of co-operative basis. They may be able to give more favourable treatment than the ware-house companies would be.

1950. So, you have no desire to so regulate the operations of the ware-house companies that they may interfere with the development of ware-housing arrangements made by the Co-operative Societies?—No.

1951. *Ch. Mukhtar Singh*: It means that either the Co-operative Banks may start the ware-houses or any other bank may start. Is it not?—Yes. It is a question of competition. As long as the ware-house is run on business lines, we do not mind.

1952. *Mr. Devadhar*: Therefore, would you be inclined in that case to support an appeal to Government for financing that institution?—To tell you honestly, Mr. Devadhar, the Co-operative system has always a very warm place in my heart.

1953. *Chairman*: You suggest that non-Indian banks should be made to obtain a license before commencing business. Have you any particular precedents in view? What particular objects have you in view in making this suggestion?—As far as other countries like Japan, Portugal, Spain, Italy and France are concerned there are similar arrangements. Even in London where the banking is so strong that it can stand the competition of the whole world, there are many people there who urge that they should be protected against foreign banks. If a country like England which is well developed in banking system requires protection, and if in a country like Japan where banking system is not so very powerful as to stand competition, such protection is necessary, I think our country which is in a very backward position in the question of banking should have some sort of protection, if banking in India is to be developed. I say they should be given a license and I have suggested that their account books should be inspected by the Inspector of Accounts. They should also deposit certain amount in proportion to their capital. These are the safeguards necessary.

1954. In addition to the regulations which you have proposed for banks in general including the Indian banks, they should be called upon to deposit with Government a certain sum of money which should be calculated in proportion to their capital?—Yes. I would also suggest that in the license there should be included a condition that the foreign exchange banks should take a certain proportion of Indians in their own staff.

1955. This is a question of safeguards for deposits; so, the question of Indian staff does not come in?—As I am discussing the conditions to be put in the license, I mentioned this condition also.

1956. When you say that a deposit should be kept with Government, will that deposit be earmarked for loss in India? If so, can it be so earmarked?—Why not?

1957. We understood from another gentleman that deposits will form part of the general assets of the company and will be available to meet the claims of the depositors either in India or outside India, when the company is to be wound up. Is that so?—If we legislate and say that those deposits should be kept with the Government, over which there will be no lien. In this way, the difficulty will be obviated.

1958. You want to make it clear by making a law?—Yes.

1959. Regarding transfer of shares you say "a very wrong and arbitrary use is made of it in the case of fully paid shares." Are you aware of many such cases?—Yes. I do not say there may not be undesirable share-holders, but such cases are few. Under the present rule power is given to the Directors to refuse to register transfer of shares. They have got this power to refuse the transfer without giving any reasons. When they do not give any reasons, naturally nobody can go to the Court; the Court cannot do anything in the matter. We say that the Directors may refuse the transfer, but they must give their reasons for so doing. This will give a chance to the share-holders to go to a Court of Law and see whether the reasons given are valid. If the share-holder is an undesirable person, he will naturally not go to the Court. I do not want to give names, but one of our prominent members has suffered in this way with the result that his application for transfer was rejected.

1960. In your written statement you propose the total abolition of this power in respect of fully paid shares, but I think you now suggested that they can have power, provided they give you reasons as to why the power was exercised in any case and afterwards the aggrieved share-holder may fight out the matter in a Court of Law. Is it not?—That is a sort of compromise. What we have suggested is nothing extraordinary. The Imperial Bank of India Act does not authorise the refusal of transfer of fully paid shares.

1961. We know the position of the Imperial Bank. I am talking about the other banks?—Apart from the Imperial Bank I would draw your attention to clause 20 of Table A of our Act which does not say that the Directors have power to refuse the transfer of fully paid shares. It is only the draftsmen of the present Articles who have put in such a clause.

1962. *Mr. Khaitan*: The general Articles of Association contain a clause that the company has a lien over the shares. Do you consider it good or bad?—Bad. We have taken objection to this clause also in the latter part of our memorandum.

1963. *Mr. Khaitan*: But you say that the lien is good in certain cases. I am just asking you in which cases it is good?—We say that there should be a lien on partly paid shares. In that case it is good.

1964. Are you aware that Section 76 of the Canadian Bank Act says "The Bank shall have a privileged lien, for any debt or liability for any debt to the bank, on the shares of its own capital stock, and on any unpaid dividends of the debtor or person liable, and may decline to allow any transfer of the shares of such debtor or person until the debt is paid." Do you see here that they have put this clause of lien?—Although we agree

that in many respects the Canadian Bank Act is far advanced compared to our own Act, we do not particularly agree with this portion of their legislation.

1965. *Sir Purshotamdas Thakurdas*: Supposing it be provided by them that no transfer of shares could be refused by a bank, will this serve your purpose?—No, the Imperial Bank has changed that practice.

1966. Why?—Because it is found that it is harmful to business.

1967. This was done by legislation?—Yes, that is what I say. But the Government is not anxious to make such a legislation. We would also say that the bank should not grant loans on its own shares.

1968. *Chairman*: You recommend that the general form of proxy should be prohibited entirely. Would not that deprive a large number of share-holders who are unable to be present at meetings of the opportunity to have their interests watched by accredited persons in cases in which questions affecting such interests crop up?—In making this suggestion we have particularly in mind the case of the Managing Agents and Directors who usually take a sort of blank cheque from a large body of share-holders over whom they have certain influence and use the proxy in any manner they like. Now when a man gives a proxy for a special meeting, he exactly knows what is going to happen there, but here in this case it is a *carte blanche* given for a very long period. We wish to develop joint stock banking in our country on really sound lines, and we do not like the idea of centering control in the hands of a small number of Directors.

1969. Does not the real remedy lie then in imposing restrictions on share-holders and asking them to attend the meetings themselves?—Even in advanced countries like England, the share-holders are not sufficiently educated in these matters. Hartley Withers in his book on "Stocks and Shares" describes exactly what an average British share-holder happens to be. As Justice Martin said in the Sholapur Bank case, "Legislation is necessary to protect the fools against their own folly sometimes". The majority of the share-holders are ignorant and I doubt whether even after a century it will be possible to get them educated properly.

1970. *Dr. Hyder*: Would you be in favour of a measure which will enable proxies to be renewable after a certain period of time?—We have no objection to the suggestion at all. In regard to these proxies, different banks follow different practice.

1971. *Mr. Khaitan*: But, do you not think that a general power of attorney would be enough in these matters?—I am sorry that would not suffice. There are two kinds of proxies, the one a general proxy and the other a special proxy. General proxy is a proxy in which no time is fixed and which can be used at any meeting. A special proxy is a proxy which has to be used at a particular meeting and very often there are articles which will show that beyond a particular time the proxy will not be valid. Article 48 of the Westminister Bank fixes the limit of validity of a proxy as three months, article 56 of the Barclay's Bank fixes it at 6 months, while almost all leading Indian banks have their periods of validity fixed at one year. What we want is that this general proxy should be done away with. Everybody will agree that a perfect form of proxy is a proxy for one meeting. Failing this, we suggest that the maximum period for which a general proxy should be made valid should be 3 months.

1972. *Chairman*: In regard to your suggestion for the examination of bank accounts by some Government agency, it has been suggested that the loss of confidence by the public in banking institutions is due to past failures and that the latter were mainly due to laxity of banking law in several respects, and that if the law is tightened up in various directions including the obligatory duties of the auditors, it is not necessary to appoint outside examiners. Have you anything to say on this suggestion?—First of all, our difficulty is how the law is going to tighten up matter, because we are not quite sure about what legislative steps would be taken. Another difficulty is that no amount of legislation will entirely prevent Directors and Management from practising those irregularities which have led several banks to go into liquidation. Therefore Government inspection is necessary. Section 56 of the Canadian Banking legislation provides for some sort of Government inspection of banks continuously and report to Government whenever they find any irregularity. In the case of Auditors and Public Accountants in India, the position is this, that owing to the influence which the Directors and Managing Agents exercise over them, in spite of their protests against the Management in private, they do not openly declare it in their reports. Then again there is nothing in law which would compel a continuous audit, and you cannot expect the bank auditors of well established big banking institutions to go and examine these detailed accounts. To obviate all this, it would be better if Government inspection is made of all banks as is done in Canada, subject of course to certain modifications in that law to suit the requirements of our country if need be. As is done in Canada, a small tax could be levied on the capital of the concern to meet the cost of Government inspection.

1973. *Dr. Hyder*: So, is it your point that Government inspection should be done over and above the usual auditing?—Yes.

1974. *Chairman*: You suggest that 50 per cent. of the subscribed capital should be called up within a year. It has been suggested that in order to prevent the growth of mush-room banks a minimum amount of subscribed capital should also be prescribed. Are you in favour of this suggestion?—We have thought over the problem very carefully. The modern banking tendency in advanced countries like England is to have large banks with large numbers of provincial and city branches, in other words having concentration in branch banking. This is of course an ideal thing that could be done, but the chief difficulty in regard to this will be that several of the branches might not pay, with the result that it is better to start small banks at such centres. We also realise that these small banks might be really only mush-room growths. To obviate this difficulty we can fix certain fixed proportions in regard to banks started at different places according to the importance of the place.

1975. *Chairman*: So then you would prescribe a minimum capital, but the amount of such minimum capital would vary with reference to the locality?—Yes.

1976. You suggest that representatives of depositors should also find a place on the bank directorate as in the case of insurance companies where policy holders have the right of appointing Directors. Is there really any necessity for such representation and how would you provide for it?—With regard to the first portion of the question, the necessity for representation of depositors, according to us, seems to be very great, for the

simple reason that in most cases the Bank's capital is sometimes much less than its deposits, and therefore, if the share-holders have the sole voice in appointing the Directors, it seems to us it is rather unfair to depositors. We feel that if a representative of the depositors is also on the Board of the Directorate, it will be better for the depositors and will be in the interests of the deposits themselves.

1977. *Mr. Khaitan*: You have referred to the policy-holders of Life Insurance Companies in this connection. You know that in the case of policy-holders, they are permanent members of the company, but in the case of a bank the depositors may be constantly changing. They may change from year to year. Would that make any difference in your mind about this proposal?—I quite see your point, but we have in view the fixed depositors.

1978. *Chairman*: You have not yet answered my question fully, and if you do so, possibly Mr. Khaitan's point will be answered?—At these annual general meetings, depositors who have got their deposits running for a period of one year or more should have a vote, say one vote for every Rs. 1,000, but in all restricted to 10 votes per head, whatever the capital invested by one depositor may be.

1979. *Mr. Khaitan*: And is it your point that these depositors should nominate one from among themselves to the Board?—Yes, they can do so if they like.

1980. How long before the annual meeting do you want the nominations to be sent in?—That could be done by a regular motion with a fortnight's notice.

1981. And the bank will have to send notice of the meeting to its depositors at least another fortnight before that, is it not?—That is not necessary. If the by-laws mention this condition, it would do.

1982. Would not the bank have to prepare the list of depositors having a 12 months' currency of their deposits on the day of the meeting?—That can easily be done and if the Articles of Association stipulate the rules, that would do.

1983. *Chairman*: The general banking practice in this country is to have one year deposits?—That is generally so.

1984. Now, you see the majority of the deposits are for the year. You want to hold your annual general meeting in March. It is not an impossibility to find then that over 80 or 90 per cent. of your depositors have their accounts current then only for 6 months or so. Therefore you will see that your real point will not be gained?—We do not mean depositors with the full currency of 12 months still to run. All those who hold fixed deposits on that day with twelve months' currency at time of deposit may be entitled to vote.

1985. Can you tell me whether there is any country in the world which has such restrictions or privileges as you refer to?—I do not know whether there is any precedence for my suggestion, but there is nothing wrong in making an original suggestion provided it is sound.

1986. *Sir Hugh Cocke*: Holding the views that you do, do you not think that current depositors are also equally entitled to be included in your

suggestion?—We knew that such a question will be put to us, and we have considered over the problem and find that current accounts being really a floating charge, we find practical difficulties in giving them the power of vote.

1987. *Dr. Hyder*: Is there not a difference between the case of those who entrust their deposits to a bank for a period and the case of those whose deposits may be drawn upon at any time?—That will be a very strong argument in favour of fixed depositors.

1988. *Chairman*: Even that argument would apply against the fixed depositors as compared with the share-holders?—Yes, Sir. Our point is that the fixed depositor has got a greater stake than the share-holder.

1989. Dr. Hyder's point and, I believe, Mr. Khaitan's point also is that your fixed depositor may be only a bird of passage?—Yes, it is quite possible.

1990. Have you any idea as to what representation the depositors should have as compared with the share-holders?—We would keep at least one-third as representatives of depositors and two-thirds as representatives of share-holders.

1991. Therefore you admit that the interests of share-holders are greater than those of the depositors?—Yes.

1992. You suggest that banks should be statutorily prohibited from advancing loans on their own shares directly or indirectly and add that there have been cases of abuses on this point. Will you kindly explain what you mean by indirect advances against the shares?—Advances made on the strength of a particular depositor's amount of shares he holds in the bank. Sometimes it so happens that in order to rig up the market a syndicate is formed with a view to buying from the market a certain number of shares of that particular bank. The bank makes clean advances to the syndicate but the object of the syndicate is to buy the shares of that bank. Even the Green Committee, appointed in England in connection with English Companies' Act, refer to this form of manipulation in paragraph 30 of their report.

1993. You suggest that advances to an individual without security should be prohibited. Would not this hamper business of clean loans to men of undoubted means and integrity, who would not have any dealings with a bank if required to give security for the advances required by them?.—We would like to amend that. We would further suggest that advances to an individual without security should be strictly limited.

1994. Limited in what way?—Limited to a certain amount.

1995. You mean monetary limit?—Yes. It has been recommended by the Central Provinces Banking Committee in paragraph 2128 of their report,—"A limit should be fixed of the amount which may be advanced to any single individual or to any single concern." The limit may be both absolute and also a proportion of the bank's capital, whichever is less. This is, after all, only a legal enforcement of the well-known business dictum that it is unwise to have all one's eggs in one basket. For stability and security of business the risk must be distributed.

1996. *Chairman*: But this does not refer to loans without security. According to the C. P. Committee's recommendation, even if you were to offer security, there should be a limitation to the amount to be advanced

to a single individual?—Our point is that a fixed limit should be laid down and that no individual should be given a clean advance of more than one lakh. If the individual is so well-to-do that he considers it *infra dig* to deal with that bank, and if he is considered worthy of more advance, there is no reason why he should not have a friend to stand as a sort of surety for him.

1997. *Seth Haji Abdoola Haroon*: You say that advances to individuals without security should be prohibited. Do you know that the system at present in Bombay, and mostly in Karachi, is that on demand notes or on hundis they take advances?—We are not aware of it. It may be prevalent in Karachi where you are passing through abnormal conditions.

1998. *Chairman*: We have been told that the system of giving clean credit to banks' customers prevails in England to a much larger extent than is the case in this country. Are you aware of it?—We are aware of it, and we know that this clean credit system is prevalent in countries where the directorate is more reliable and where clean advances are given to large companies or syndicates. Considering our country, we think that some limit should be fixed in the case of clean advances. That is our opinion.

1999. You suggest that purchase of immovable property except for the bank's use or in realisation of its dues should be prohibited and that in the latter case retention should only be allowed for the period essential for the recovery of the bank's dues. Are there many instances in which banks hold properties? If so, are they not shown in the balance-sheets and would it not be a matter for the share-holders to deal with at their annual meetings?—Generally a number of banks which hold properties besides their business premises are those that have bought properties which were pledged to them.

2000. Do you mean to say that they are compelled to buy them?—Yes, compelled to buy. These banks continue to hold these properties in the hope that the market will improve and that their prices may appreciate; and it often happens that instead of those prices appreciating, they sink down further. Therefore we advocate that there should be some limit to the discretion vested in the Directors.

2001. Therefore, you now want to modify that recommendation to the extent you mentioned in your answer?—Yes.

2002. *Sir Hugh Cocke*: You said that banks should be allowed to retain such properties only for such period as is essential to recover the bank's dues. I would point out that this state of things may not normally arise?—No.

2003. Then you admit that it would not be proper to hold the property till the bank's dues are recovered?—No. In the matter of holding and disposal of properties in the possession of the bank, the share-holders are, so far as theory is concerned, masters of the whole situation, but in actual practice they are helpless. Under the Articles of the Association, the Directors have unlimited discretionary powers which in our opinion should be curtailed. We know of various instances in which banks have, in their balance sheets, shown certain figures which they stoutly refused to explain to share-holders. (Mr. Kapadia) I once asked the Managing Director of a bank how it was that while in a particular year the bank's properties stood at a certain figure, the very

following year the same figure had gone up. I asked him whether additional properties had been acquired. And he coolly replied that it was inexpedient in the interests of share-holders to disclose the information. Now, if we raise the same question at the Annual Meeting, the Chairman is certain to repeat the same answer. It is therefore my contention that the very wide powers now enjoyed by the Directors should be limited.

2004. *Chairman*: Will not all these restrictions that you contemplate, weaken the power and therefore the efficiency of the management?—No. I will cite to you the case of Canada, where it is provided that if certain properties are not disposed of within 7 years, they shall be forfeited to His Majesty the King.

2005. *Chairman*: That would be a good thing indeed?—(Prof. Davar) Our opinion is that the kind of restrictions that we recommend will increase efficiency of management and our opinion also is that indigenous and Indian banking would develop much better for the simple reason that those restrictions would inspire confidence among the investing public. These restrictions are not to be applied only to Indian banks but to all foreign banks doing business in our country.

2006. Is it your intention that these restrictions should be applied to the indigenous banks as well as to all foreign banks?—On reconsideration, we do not think that these particular restrictions would apply to foreign banks.

(*Mr. Kapadia*): I know of certain instances where banks increase their holdings of premises and where the Managing Director, when asked to explain certain items in his balance sheet, would refuse to enlighten the share-holders of the bank on the ground of inexpediency and where the Chairman would simply confirm the reply already given by the Managing Director. My point is: is it not the right of a share-holder to know whether the addition of any figures in the balance-sheet represents the acquisition of any new properties?

2007. *Chairman*: Am I to understand that it is the present practice among Indian joint stock banks not to give their share-holders or any individual share-holder information about details of an entry made in the balance sheet?—They are extremely unwilling to give this information. Our experience in Bombay has been particularly unpleasant.

2008 *Mr. Devadhar*: I should like to know whether what you have told us happened at the annual meeting of share-holders?—(Mr. Kapadia) I am generally in the habit of avoiding unpalatable things being discussed in an open public meeting. I generally send a list of questions to the managing director; he writes back answers to some; others he does not reply to; then an appointment is made and still some questions are not answered on the plea of inexpediency. The Chairman invariably endorses the managing director's reply. But, Sir, in the particular case to which I have referred, the managing director prevailed upon me not to ask any questions at the public meeting and I therefore made a declaration that in the interests of the bank I would not put the question. So I did not put those questions at the open meeting but I asked for information from the Managing Director.

2009. *Chairman*: Surely that does not speak very highly of your solicitude on behalf of the share-holders in general.

2010. *Chairman*: I am sorry to hear that you, the Secretary of the Share-holders' Association, should have been persuaded in that instance

not to pursue the matter in the interests of the share-holders. (*Mr. Davar and Mr. Shroff*). That is Mr. Kapadia's personal view; my Association has nothing to do with it.

2011. *Sir Purshotamdas Thakurdas* (to Mr. Shroff and Mr. Davar): Do I understand that you, as representatives of the Association, would not endorse what Mr. Kapadia says in regard to this? If you are not prepared to endorse the inference that Mr. Kapadia has drawn from the incident which he has related, much less can this Committee accept it?—(Mr. Shroff and Prof. Davar). We are not acquainted with it.

2012. I am not talking about the accuracy or the inaccuracy of the incident. Do you endorse the general inference?—If you mean the general experience of the share-holders, yes. The general practice is that inconvenient questions are often asked and the questioner is informed that it is not expedient to make a statement, etc.

2013. *Mr. Devadhar*: Do you mean to suggest that it is the general spirit of those who are in custody of the capital of these concerns not to take the share-holders into their confidence. Do you think it would not be doing harm to the interests of the share-holders if the information were not given at a public meeting, but the Chairman incorporated in his speech some such information?—(Mr. Shroff) They may if they want to do it.

2014. Every piece of information is supposed to be placed before the auditors. Is not information available to the auditor which may not be available to a single share-holder or to a member of the general public?—They must have seen it.

2015. I mean if such a piece of information were really valuable in the interests of the general share-holders, the auditors would ask to see it?—They might or they might not. We do not know anything about it. (Mr. Davar added: What is wanted in the interests not only of banks but also of Joint Stock Companies has been laid down repeatedly; it is that there should be as much disclosure as possible in the balance sheets and accounts and in the questions asked by the share-holders. Publicity is a check against any irregularity).

2016. *Chairman*: I thought Mr. Devadhar's question was whether the details had not been placed before the auditors?—The auditors would certainly get it if they wanted it, and if there was any irregularity, it would be the duty of the auditors to disclose it in the report and bring it to the notice of the share-holders. I have in mind the cases of the banks where the auditors have got the information but have not disclosed it; if the share-holders want to know about it, they should be given that information.

2017. *Mr. Devadhar*: What protection would you provide for these share-holders?—Disclosure as far as possible.

2018. Without damaging the interests of the concern?—Yes, we are protesting against abuse of the power given to the management.

2019. Would you suggest any remedy?—We have no remedy to suggest, because the whole question arose out of the Chairman's point as to why they did not ask for the information as share-holders at the meeting.

2020. *Chairman*: You suggest that there should be a provision that the annual general meeting, to pass balance sheet, accounts, etc., must be held not only once in a calendar year but not later than twelve months from the

holding of the last annual general meeting instead of 15 months as at present provided. Will you explain what particular advantages you have in view?—To avoid the delay in the passing of the accounts. We have reconsidered this question and we would like to say this: If a meeting is compelled by legislation to be held within three months of the close of the financial year, all the difficulty would be obviated. Under our present section, at least one meeting in every year and not later than 15 months from the last general meeting should be held. An extraordinary meeting is a general meeting and on that footing things have gone on in the past. We expect all institutions to be first class in efficiency and therefore within three months of the financial year it should be possible to hold this meeting.

2021. That would really depend on how long the auditors would take to certify the balance sheet?—Most of the banks have what is called continuous audit and I should think it is very dangerous to have periodical audits, which mean certainly a sort of cursory examination of accounts in which auditors have no time to go into details.

Sir Hugh Cocke: You realise that Indian banks may start branches overseas? If Indian banks have branches overseas, there will be the difficulty of their balance sheets coming within three months' time?—We do not see any such difficulty.

2023. Three months ought to be ample?—Generally balances are telegraphed, but there should be ample time for accounts to come in.

2024. *Chairman*: You were dealing with banks which have this system of continuous audit, but in the case of smaller banks, not at the Presidency centres or provincial capitals, do these also have continuous audit?—It is not compulsory to have it under the present law and therefore they do not have it.

2025. *Sir Hugh Cocke*: What would happen if the audit were to take place at the end of the year or half-year?—It is impossible to examine, say the six months' transactions of a bank within a few days.

2026. *Chairman*: The Committee will consider the matter. As regards the law requiring that meetings by requisitions can be called by the holders of not less than 1/10th of the issued share capital of the bank, you suggest that this proportion should be substantially reduced. What specific proposal would you make in this behalf?—We would put it at 1/20th. We have stated our reason in the memorandum. India is a country of distances and if the share-holders are scattered all over the place, it is not very easy to get a requisition of 1/10th. There are cases where there are other practical difficulties.

2027. You state that experience has shown that employees of the bank are sometimes used as nominees to attend banks' meetings and to vote under the garb of share-holders and you suggest that this should be stopped. Is this a common practice with banks?—I should not say it is a common practice, but it is followed in some cases. It is very difficult to prove that this practice is followed. It is on principle that we attack the system that bank employees should not come to the meeting and vote and make noise and prevent people from speaking, because they have to do it in order to please the manager. We are fortified in that experience by even the Canadian Act which we have repeatedly quoted. Under

section 31, sub-section 7, of the Canadian Act "no general manager, manager, clerk or other subordinate officer of the bank shall vote either in person or by proxy, or hold a proxy for the purpose of voting." It is a very wholesome instruction.

2028. *Mr. Khaitan*: It may be the Canadian law, but what do you think of the present feeling in the world? The best system of a joint stock company is that its employees should be share-holders in that concern?—Yes, that is from a different standpoint, namely that we do not want to discourage an employee from holding shares, the idea being that it would be an incentive to him to do his best for the bank to influence business, because he would share in the dividend. Our objection is to the employee voting.

2029. If an employee is a share-holder, you would not prevent him from attending a meeting of the bank?—At least we would prevent him from voting. I do not deny that logically your argument has some force. It is a theoretical problem and logically quite sound, but looking at the practical side of it, there is a difficulty and we find that our experience has a sort of support in the Canadian Act.

2030. You gave your full blessing to the co-operative movement and this is one of the side issues of the co-operative movement?—I do not see where the parallel is between the two. The co-operative movement has a different foundation altogether.

2031. It is a national development of the spirit of co-operation that the employers and workers in a concern should be share-holders in that concern?—I would certainly support it so far as the co-operative movement is concerned, but it cannot be mixed up with what we have to consider in the case of joint stock banking, which is a purely proprietary concern managed by quite a different set of individuals than the proprietors.

2032. *Mr. Devadhar*: Do you mean to suggest by way of reply to Mr. Khaitan that it is something like the co-partnership system?—I said it was quite distinct.

2033. The principal idea being to make profits.—Yes.

2034. *Chairman*: At present share-holders of a bank holding 1/5th of the shares issued can apply to the local Government for investigation by inspectors. You suggest that this proportion should be reduced to 1/10th. It has been suggested that to avoid abuses of such power some penalty should be provided for frivolous applications. What are your views on the subject? Have you any special penalties to suggest?—We submit that under the present law the safeguard which is provided for under that particular section is quite ample. If a number of share-holders requisition an inspection, they have to deposit a certain amount of money towards the cost of inspection. If the inspection proves to be fruitful, the money is returned and paid out of the company's assets; if not, the expenses will be paid out of the deposit. So we submit this is a sufficient deterrent to share-holders for making a frivolous application. In fact we do not know of a single case where a petition by share-holders holding 1/5th of the shares has been made.

2035 Would it not be at least permissible to hold that if such a case had arisen requiring action under that particular section of the Act, share-holders holding 1/5th of the shares would have come forward and presented a petition?—I am afraid we cannot take that assumption, considering that

there have been many failures recently. It is true that a small number of share-holders who are active want to take some action, but it will be very difficult for them to get an application by 1/5th, but if it is made 1/10th they might get an application and perhaps it would be to the advantage of our concerns.

2036. *Sir Purshotamdas Thakurdas*: Do you know of any case where an effort was made to get a petition from share-holders holding 1/5th of the shares?—I do not know, but 1/5th I am told is a very big number to get at. It can only be got in very prominent cases, where there has been much agitation. By lowering the proportion, I am really not making it easy for busy bodies to debase an institution which is normally well working. We are not starting with the presumption that every institution is likely to be badly managed.

2037. But has an effort been made and has it shown what proportion share-holders can get, 1/3rd or 1/6th or 1/8th or 1/10th?—Supposing one knows in his mind that it is impossible to get such a proportion, then he would never attempt. With regard to the other point that 1/10th might bring in an undesirably large number of applications, in case of a sound institution, an inspection would perhaps improve its position.

2038. Ultimately?—Yes.

2039. In the beginning, do you know what effect it will have?—In the beginning of course, there will be a certain amount of nervousness, but we assume that 1/10th will not go to the length of depositing costs and asking for requisition only for the sake of spite or some other personal grievance.

2040. What I wanted to know was whether any effort was made at all?—Not to our knowledge. (Mr. Kapadia: Recently I got up a requisition made and we succeeded in bringing the Management to a proper frame of mind with the result that the Management agreed to take upon the Board the Directors whom we wanted to be taken up and they also agreed to give us the inspection of the books and documents of the company).

2041. *Chairman*: You managed to have a requisition signed by 1/5th?—By one-tenth. It was not a banking company, it was an ordinary joint stock company. In that case we would not have been able to secure 1/5th.

2042. You suggest that the Chairman of the Board of Directors of a bank should not be allowed to act in that capacity for more than three years without re-election by the company in General Meeting at the end of that period. Will you please explain the reasons for altering the present practice? Are the legal position and practice in India different from those obtaining in England and if so will you please elucidate the points of difference?—The main object is that a single man should not have control of a bank and that every three years the share-holders should be given a sort of option or chance of re-electing him or substituting another for the man who has become thoroughly unpopular for reasons of his own. Under the present system they may never get a chance of removing the Chairman because he is appointed by the Directors.

2043. They still have the power of selecting the Directors?—Under the articles the Directors retire by rotation, not under the Act. Under the Act if one is appointed, he can remain for life. It is the article which says that in case of bankruptcy, lunacy, criminal conviction, etc., a Director may retire.

2044. Are not the Directors elected every year?—No. Not all.

Sir Purshotamdas Thakurdas: Does not the Act lay down anything?—No, it is very fortunate that we have the articles which enable Directors to retire by rotation.

2045. Therefore is it a case of once a Director always a Director?—Yes. If you had no provision in the articles, you could not remove a Director under any circumstances. Even by the rotation arrangement, the position is not quite satisfactory.

2046. It is by mere convention that you have got this clause in the articles—Yes.

2047. *Chairman*: You propose a restriction in the case of the Chairman, but none in the case of the Directors?—We have on page 15 of our memorandum, clause (8), said "the removal of a Director by share-holders should be made as easy as possible."

2048. In clause (9) you say "all directors of a bank should retire at the statutory meeting, offering themselves to be re-elected if they so desire." That is really your restriction in the case of the Director?—Yes.

2049. *Mr. Khaitan*: At all subsequent ordinary meetings 3/4ths of the Directors should compulsorily retire?—We say that " we are of opinion that on certain specific points the rights and obligations of bank directors so far as banking companies are concerned must be strictly defined by law and not left to the discretion of the draftsmen of the articles who are generally creatures of the Board of a company or its promoters". Having enunciated the general principle, we shall lay before the Committee certain aspects in relation to the conduct and proceedings of the Board of Directors and then make suggestions. In connection with this, I would like to draw attention to para. 43 of the Note appended to the Madras Committee's report by Mr. Thomas. In that paragraph Mr. Thomas has pointed out that it is necessary that statutory provisions should be inserted in regard to the conduct and proceedings of a Board.

2050. *Chairman*: Are you aware of any other country, England or, say, America or Japan where restrictions like the one you propose to introduce in India are in force?—Yes, I would refer you to sub-section 4 of section 30 of the Canadian Act. That sub-section says "If the object of the special general meeting is to consider the removal, for mal-administration or other specified and apparently just cause, of the president or a vice-president, or of a director of the bank, and if a majority of the votes of the share-holders at the meeting is given for such removal, a director to replace him shall be elected or appointed in the manner provided by the by-laws of the bank, or, if there are no by-laws providing therefor, by the share-holders at the meeting."

2051. That is not on the lines you propose. There the point is that if the share-holders find that the conduct of the president has not been satisfactory, they have a meeting to remove him, but here you want a change to be made automatically every three years?—The sole object of re-election by rotation is to bring the Chairman within the control of the share-holders. The principle of the passage I read out to you from the Canadian Act is to bring in the election of the Chairman under the control of the share-holders and we have also a similar object, *viz.*, if we find that the Chairman is not a fit person, who should have power to chuck him off at least at the end of three years.

2052. But the suggestion which you propose is perhaps more rigid than the one which finds a place in the law of Canada?—If I may say so, it is less rigid, because in Canada the president can at any moment be chucked off and there is nothing like the 3/4ths majority. By a bare majority the share-holders present can chuck off their president, vice-president or director at any time of the year, whereas all we want here is that at the time of his retirement after three years, he may be chucked off. It is therefore less rigid.

2053. *Mr. Khaitan*: In India these things are not governed by 3/4th majority?—(Mr. Kapadia) Under section 78 of the Indian Companies' Act share-holders can give a requisition for holding a meeting. On such requisition the Directors will have to convene an extraordinary meeting and the resolution that will be passed at the extraordinary meeting will require the 3/4th majority because articles generally provide for an extraordinary resolution for removing a Director and sometimes a special resolution. Section 13, sub-section (4) of the Canadian Act lays down "that if a chairman or vice-chairman for mal-administration or specific or apparently just cause". These are the words used. The remedy we have suggested is that there should be an election held every three years. That will give an opportunity to the share-holders to elect and re-elect the chairman, if they choose. That will be a sort of check on the chairman. But it is quite absurd that a person who has lost confidence of the share-holders should sit there as a chairman.

2054. *Sir Purshotamdas Thakurdas*: Is there no retirement by rotation?—Yes, they do retire, but the point is the retirement comes after a long interval and during that period if the majority of the share-holders lost confidence in him, they cannot do anything in the matter. The Articles do not provide for his removal, and nobody can do so.

2055. *Mr. Khaitan*: I am doubtful about what you say. A certain meeting is held which is an extraordinary meeting. It is true. But I do not understand how a resolution passed at this meeting is an extraordinary resolution?—(Mr. Kapadia) I will explain to you. A resolution passed at the extraordinary meeting with a 3/4th majority is an extraordinary resolution. That is to say, you put in a requisition to convene an extraordinary meeting. That meeting is convened and the resolution is passed. The 3/4ths majority is required because of the articles. I admit that it does not mean that every resolution passed at the extraordinary meeting is an extraordinary resolution. An ordinary resolution can also be passed.

2056. *Mr. Devadhar*: Do you mean to say that the 3/4th majority is required for the change of office-bearers?—(Prof. Davar) Yes. Generally under the articles in the case of Directorates. There are certain cases that may fall under the Companies' Act and there are certain cases that may come under the Articles of Association.

2057. In connection with the share-holders, if there is the 3/4th majority, can they change the policy?—What is wanted is this. Suppose we want to alter the Articles we have got to do it by a special resolution and if we want to change the object then we have to have it done by a special resolution which requires the sanction of the Court.

2058. My question is whether you think the 3/4th majority is necessary or not?—Personally, I think there should be a simple majority. I say this

because the Articles are originally drafted by the Directors and the share-holders do not get a chance to alter them. Therefore, I say if the share-holders feel that particular sections in the Articles are oppressive, they should certainly get a chance to change them.

2059. *Mr. Khaitan*: When you suggest that a bare majority should be allowed to change the Articles of Association, do you realise the danger that it involves?—I do not see what dangerous things the share-holders can do there.

2060. These are the Articles of Association laying down different rights to different classes of share-holders?—If you think that the rights of preferential share-holders will be altered, you should lay down that these rights should not be altered. There is a separate agreement always made by which these preferential rights are given.

2061. Your argument becomes fallacious here. The rights of preferential share-holders are given in the Articles and if a right is given to the share-holders to alter the Articles of Association by a bare majority, that part of the Articles which gives rights to the preferential share-holders may either be deleted or altered. What do you think?—Those rights can be protected as is being often done by inserting restrictions in the memorandum.

2062. How? If you advocate that the Articles of Association can be altered by a bare majority, would you add a safeguard that the Court must approve of the alterations?—Yes, I would suggest this. In view of this discussion I would point out the machinery provided by the Canadian Act. It has laid down in section 18 certain important regulations which govern the internal management of a bank. Then in connection with certain specific items such as powers of directors, duty of directors, their power to borrow, voting and other things, they have laid down regulations. They have taken out the power from the hands of the promoters. At the first meeting of the share-holders all the points and suggestions will have to be placed before that meeting who, with simple majority, shall decide these points. That would be a very good precedent to quote and to be borne in mind.

2063. Giving that particular power to one particular meeting is quite different from giving a general power to alter the Article?—The powers of share-holders under the Canadian Act are not confined to one meeting only. They are competent to hold meetings and alter the bye-laws from time to time.

2064. *Chairman*: In any way, you have not made a specific proposal in your memorandum that the power should be given to share-holders to alter the Articles of Association at a later meeting by a bare majority?—No, that has come out of the present discussion.

2065. It is not a deliberate proposal?—We had an opportunity of discussing that question, and therefore that proposal has arisen. If we were to include all these things in our memorandum, it would have gone very bulky.

2066. Is it your proposal that this should be also taken into consideration, even though it has not formed part of your memorandum?—No. I would not press for it if you think that it should have been set out in the memorandum.

2067. You also suggest that persons appointed as directors should not be connected as directors with more than a specified number of companies. What number would you suggest?—Ten or fifteen at the most.

I say a director who wants to do work on more companies, will not be able to do so.

2068. So, your proposal is that one director should be allowed to be a director on ten or fifteen companies?—The reason is that however clever a gentleman may be and however experienced he may be, still he will not be able to do efficient work for more than a certain number of concerns. What we want is that a gentleman who is a director of a company should be able to give his attention to the work.

2069. Does this suggestion find a place in the Canadian Act?—No.

2070. That practically enables me to bring out my point. A particular gentleman may be able to manage the directorship of fifteen companies, another may not be able to do it. Once you impose a restriction of limitation, you must mention some specific number?—I say ten.

2071. There are men and men. Some may be able to manage ten and others may not. Therefore, it is a matter which cannot be efficiently dealt with by legislation?—You can lay down the standard of an average gentleman. There should be made a distinction between a first-class man and second-class man.

2072. So, you want legislation for first-class and second-class men?—Some standard must be laid down. If we do not put down a limit, one person may be a director on 100 companies or mills. I want this limit because all the directors are not professional directors. It is their part time work.

2073. I follow your point of view. I am simply placing the practical aspect of the case. It seems to me that things of this sort can only be settled properly and rightly by the good sense and the character of the gentlemen who undertake these duties of directors. If on the other hand you look at the question from the wider point of view, I think no amount of legislation can help the matter?—Our experience is that a gentleman who is not able to work as such on a certain number of companies, still accepts the directorship. I therefore say that there should be some limit. It is better to have some safeguard rather than have no safeguard at all. This would be a safeguard up to certain extent.

2074. How to lay down a standard of first-class and second-class men?—Maximum can be always arrived at.

2075. Suppose we put it down as 20. If that is the standard of a first-class man, what about others. You have already said that all directors are not first-class men?—What I say is that a first class man should be allowed to take a larger number of directorships. By fixing a certain limit, no harm will be done. If you look to the directorate of the registered companies in Bombay, you will find that there are directors who are on 30 or 40 companies. In such cases how is it possible for a director holding 30 or 40 directorships to have full knowledge of the work of those concerns. It is better to have some limit than to give them a free hand.

2076. My point is that black sheep are bound to be everywhere, but at least I hold that a gentleman who takes the responsibility of being a director of a company or a bank will not take more work than he can do?—We take it that all the directors are honourable men. But I say some of them may be first-class men, but perhaps they may not have the capacity of working owing to bad health and still they would accept the directorship.

2077. Therefore, they are the black sheep. However, we have discussed this point fully and I do not wish to pursue it any more.

2078. *Mr. Khaitan*: As you are asking for a general legislation for fixing the limit for the directorship, I would like to ask you this. Take the case of Andrew Yule & Company in Calcutta. They have got 50 or 60 concerns under them. Would you object to Mr. Thomas Cato of that Company being the director of all these concerns?—Certainly. One man should not be on 50 or 60 companies.

2079. *Chairman*: Is it not desirable that the head of the firm should be in the know of the company business?—He is not expected to look after all the departments.

2080. Is it not necessary for him to be in the directorate for the proper control of all those concerns?—I say he cannot work there efficiently.

2081. *Mr. Khaitan*: I will put to you another case. You know that in many companies solicitors are appointed as directors. If there is a competent solicitor and he has got 100 clients, in that case, would you object to his accepting the directorship on the companies of his 100 clients?—My opinion is that solicitors should not accept directorship. He is a lawyer. We have mentioned in our statement that the directors should not hold places with the object of making profits. Under this suggestion the solicitor should not be appointed a director, because he is making profits by getting his fees.

2082. *Chairman*: You also suggest that a director of a bank should not be allowed to act as a director of another bank. Would you apply this restriction to all classes of banks? Would you have any objection to a director of a joint stock bank being the director of a co-operative bank?—No.

2083. You have suggested that the removal of a director by shareholders should be made as easy as possible and that no director of a bank should be permitted to resign before the statutory meeting at which he should be present to give such explanation as may be required of him. Do you not think that such provisions would render it difficult to get qualified persons to accept the office of directors?—We do not think so. Because if a director is really a good director, he has nothing to fear of the share-holders.

2084. *Chairman*: You state that the mode of valuation of securities laid down by the statutory form is too elastic with the result that investments are shown in some cases at a valuation which may neither be the cost nor the market value, and you refer to instances in which appreciation in the market prices of investment was taken to profits before they had been actually realised. Is it your contention that until the securities are sold they should be held at cost price? Do you want to apply this rule to investments that have depreciated in value?—The cardinal rule which we recommend and which I understand is the best-known rule in accountancy is to value investments at cost or market price whichever is lower, and that is a first-class accountancy rule.

2085. As regards the winding up proceedings you refer to a case in which conditions were laid down depriving liquidators of power ordinarily vested in them and suggest that such restrictions on the rights and liberties of liquidators should be made null and void in law. Will you kindly explain this point more fully indicating what the present legal position

is?—We had in mind the recent case Shamsadani *vs.* Tatas. Unfortunately I am not quite prepared with all the facts and figures to give an off-hand reply to the question at present. It is an *obiter dicta* of the Privy Council that curtailing the liquidator's powers by this resolution would be undesirable. If you so desire, I shall submit another memorandum in reply to your present question giving all facts and other relevant matters.

2086. As regards Banking Education you suggest that some method should be devised by which foreign exchange banks should be required to give facilities to Indian scholars such as those given by indigenous joint stock banks and by the Imperial Bank. Will you please specify the facilities given by these banks? Can you give any precedent for such a suggestion? Considering that the exchange banks are private institutions, would you compel them to give training to youths whose services they may not require?—Dealing first with the Indian joint stock banks, both the Bank of India and the Central Bank of India are freely admitting apprentices studying for the Diploma of the Institute of Bankers London examination as well as for examination in India, because no one can sit for these examinations until he has finished a course of practical training along with his theoretical studies. So that what happens is that side by side with their course of training in banks they attend lectures during the mornings and evenings. So far as I know, the Bank of India generally pays for these apprentices and the latter get further encouragement in the shape of bonuses every year as they pass out their examinations, which practically helps them to meet their own expenses of study. In the case of the Central Bank they also take apprentices and as a matter of fact they were running their own training classes. As soon as these men have been sufficiently trained, they are mostly employed in their own institutions.

2087. So then is it your point that the Central Bank and the Bank of India do take in even unpaid apprentices irrespective of the fact whether they will be able to provide for them jobs in their institutions, but they do it primarily with the point of view of providing them with facilities to get their diploma?—Yes. Coming now to the Imperial Bank of India, they have got a very well-chalked out scheme of taking of probationers.

2088. But then the point is this that they take in only those whom they ultimately absorb in the bank. They do not take in outsiders?—That is true. The Bank of India also does the same.

2089. Therefore then in the case of the Imperial Bank and also the Bank of India the intake of these men is restricted to the number of men they can absorb in their service?—Yes. But in the case of the Central Bank they do not make that restriction. That is my experience.

2090. What do you want the Exchange Banks to do? Do you want them to follow the policy adopted by the Imperial Bank and the Bank of India, *i.e.*, to take a certain number of probationers for training whom they could ultimately absorb in their institutions, or do you want them merely to give facilities to young men for training so that they can secure the diploma from the Institute of Bankers?—We are more interested in training in the Exchange business. There are no Indian banks at present, except the Central Bank to a small extent, which do foreign exchange business. It would be better if our young men could be trained in these institutions so that they can learn the foreign exchange business. We would of course like the Exchange Banks to throw open their doors to Indians being trained and employed in their service. At any rate what

we desire is that the Exchange banks should afford facilities for the training of Indians in foreign exchange business so that we may have our own staff for starting foreign exchange business.

2091. Then what will happen to these youths who are trained in exchange business until Indian banks are formed and begin to do exchange business?—They will get the diploma of the Institute of Bankers which is an all-round diploma and so they can take service in any bank.

2092. You know the Government of India started a School of Mines at Dhanbad and spent a considerable sum of money in training young men. Then when the students passed out and got the diploma the trouble arose as to how they could be suitably employed. The result was that admissions fell off rapidly. The point that I therefore want to know is how to find suitable employment for these young men whom you want to be trained in the Exchange Banks?—If you think of unemployment and over-crowding I might say there will be none. I say this out of my 30 years of teaching experience. I find that the Imperial Bank of India over and above the probationers that they take, also recruit a large number of clerks from those who have taken the diploma of the Institute of Bankers.

2093. But will these young men who have had specialised training be satisfied by clerical jobs? I put this question to you because a theoretical expert told us that a well-trained Indian youth with practical and theoretical knowledge of banking gained in England and who had special qualifications failed to secure a proper job in a bank in this country.—I have no knowledge of such a state of affairs.

2094. Anyhow, we will leave the matter at that. It is a matter of opinion.

2095. *Dr. Hyder*: I find from your memorandum that you lay stress on two fundamental principles. There should be confidence and there should be publicity. Apart from other considerations, I wish to ask you whether you can transfer confidence by legislation?—Our point is that where confidence is non-existant we could considerably improve upon it and create confidence, *e.g.*, take the case of the inspection of bank accounts by Government which we have suggested (as is done in Canada) by the Inspector General of Accounts and his assistants, it would create confidence because there will not be so many bank failures in the future.

2096. In regard to your suggestion of having an Industrial Bank I note that you would prefer to name the concern an Industrial Corporation. Would you like the Government guarantee to be limited to a period of years or you want the guarantee to be indefinite?—I would not dogmatise on that, but I think guarantee would be necessary for a limited number of years in the early stage of the working of the company.

2097. Would you put it at 5, 10 or 20 years?—I may put it at 20 years.

2098. I put you this question because I wanted to have your opinion in this matter, as we have always been told that Government guarantee should be for an indefinite period.

2099. *Sir Purshotamdas Thakurdas*: Do you mean to imply that even if the Bank cannot go on without Government guarantee at the end of that period, you would not mind?—But if the Government guarantee is still found necessary, then it should be continued.

2100. To that extent, therefore, you wish to modify your answer to Dr. Hyder?—That is why I said that I would not dogmatise on this point.

2101. Then you say that the Government guarantee should be extended only if the bank worked successfully?—Yes. But what is the guarantee that you contemplate?

2102. *Chairman*: But what guarantee is it that you are thinking of?—Guarantee of interest on the debentures. On re-consideration we do not think any limit should be placed on the guarantee as we find practical difficulties in the matter.

2103. Then is it your point that even if a bank is not working successfully, the taxpayer should be indefinitely committed to a guarantee?—To some extent the taxpayer should be prepared for a sacrifice if necessary in the advancement of the general interests of the country in the growth of its industries. Moreover there is a practical difficulty. Supposing for example an Industrial Bank finances several industries like the iron and steel industry, the cotton industry and so on, it will depend on the number of years the business takes to become a paying concern. So then, you cannot restrict the number of years that the Government guarantee should last. After all, we believe that it will only be a remote contingency for a properly managed industrial bank to fail if worked on sound lines. As an extreme case, if the bank is not working well, a provision might be made for Government winding up the business of the bank after a reasonable trial.

2104. Apparently your idea is based on the arrangement in force in Japan where the principle of indefinite guarantee is in force?—It will have to be indefinite of course with certain reservations.

2105. Therefore, it seems to me that you gentlemen have not really bestowed much thought on this suggestion and therefore I would not pursue it further?—We hold our definite opinion that the guarantee should be indefinite with certain reservations.

2106. *Chairman*: You say that the Industrial Bank should finance the Iron and Steel Industry which may take 50 years to earn profits. Therefore is it your intention that until the industry earns profits the Industrial Bank should go on advancing money without charging proper interest?—No, that is not the intention.

2107. *Mr. Lamond*: In paragraph 3 of your memorandum you say,—"We are of opinion that banks should advance moneys freely on the security of liquid assets so long as these assets are in themselves enough to constitute sufficient security in all respects without insisting upon the signature of the managing agents as collateral security." What change do you propose?—Pledging of assets.

2108. In paragraph 4, you say,—"Though the goods are virtually hypothecated, the transaction remains a secret." Do you mean hypothecated or pledged?—Pledged on the warrant.

2109. *Sir Hugh Cocke*: In paragraph 39 of your memorandum you say,—"The affairs of certain banks have brought to light the fact that the auditors have often passed over important matters which they should have brought to the notice of share-holders." And then you give 5 instances. May I ask how those points came to your notice as an Association? Are they from defunct banks or are they from existing banks?—These have mostly been taken from companies that have gone into liquidation.

2110. In the same paragraph you state that auditors "should state whether the securities held against loans fully cover in each case the value of the loans and whether any of the assets of the bank have been written up for any purpose whatever". I suggest that the balance sheet already prescribed gives that information, because it requires loans fully secured to be separated from those yhich are not secured. Therefore I put it to you that Form F, as it stands at present, is quite satisfactory. Therefore what more do you want?—That is all very well. What we want is more specific information in the balance sheet and the auditors' certificate in connection with various assets.

2111. In paragraph 41 of your memorandum, you refer to a certain decision of the Bombay High Court regarding doubtful debts, according to which doubtful debts should be shown even though they are fully provided for. You refer to that decision and you desire that doubtful debts should continue to be shown separately. Do you know of any other country where this is done?—So far as India is concerned, we think it will make matters clear if a specific entry is made in the Form to that effect. For this reason the Form prescribed by legislation in 1913 in which the item "provision for bad and doubtful debts" was deliberately inserted was in our opinion excellent. Our idea is that the Form should give as much information to the share-holders as possible.

2112. I suggest that if you are for going back to your old Form, the bank may write off all its doubtful debts?—But there may be circumstances under which they would not like to do that. What we want is that the bad and doubtful debts and the provision made for the same must be disclosed in the balance-sheet.

2113. But you do not know of any other country where these things are provided for?—No, we do not know of any such country. (Mr. Kapadia) I would like to draw Sir Hugh Cocke's attention to legislation in other countries; section 54 of the Canadian Act which empowers the share-holders to be furnished with any statement they desire in connection with the Company. Such a safeguard is not provided for in Indian legislation.

2114. On the question of Government inspection do you want Government audit in addition to statutory audit?—(Mr. Davar) Yes.

2115. Do you think it should be taken up at any time?—Yes, at any time; even under the present law, an auditor can go to the company and examine its accounts.

2116. You have not drawn up any form as an alternative to Form F for the benefit of the Committee?—We will furnish one in a week's time if you want it.

Yes, it will certainly be useful.

2117. *Mr. Devadhar*: In how many cases of abuse was your Association able to get those abuses remedied?—We have furnished to the committee various memoranda dealing with 7 or 8 banks in liquidation which will serve as a basis for the statements we have made.

2118. What is the attitude of the capitalist concerns towards the work of your Association?—There are no open hostilities.

2119. Do they think you are carrying on useful educative work?—We do not expect them to carry on the work we have been doing. We are constantly criticising them, we take various steps open to us in law to correct some of their irregularities. In some cases they welcome our criticism, in some cases they do not.

2120. What means do you resort to for carrying on propaganda to spread better knowledge of the duties of share-holders?—We are trying to do that by means of our own Association. During the period we have been in existence we have constantly carried on correspondence with various companies. This correspondence was published in the papers and then ultimately in our annual report the whole thing is sent to each member of the Association. We complain against various irregularities on the part of companies and invite share-holders to help us in ventilating their grievances. We have meetings of share-holders privately in our office and decide upon concerted action. We have often succeeded in getting certain irregularities removed.

2121. I want to ascertain whether this kind of propaganda carried on among share-holders is considered helpful by the various companies or whether they consider it as a sort of hindrance?—It is difficult for us to say.

2122. In paragraph 19, do you favour nomination?—We want election by the vote of depositors.

2123. Would you prescribe legislation to make it compulsory?—Yes. At present the share-holders only elect their representatives; we want the depositors also to have representation.

2124. You have suggested in answer to Chairman's questions that no loans should be given to Directors or auditors. Is this practice very common?—Very common. If you go through the memoranda of liquidated banks which we have supplied to the Committee this evil will be apparent.

2125. Regarding restrictions on long term credits, I believe you refer to loans which are made for non-agricultural purposes?—We have joint stock banks in view and we have excluded all agricultural banks.

2126. You talked about limitations to the powers of Directors. Do you think there is much canvassing to get Directors placed on the Board?—Directors are self-appointed more or less, or they are appointed by their friends and promoters.

2127. *Mr. Devadhar*: The general trend of your criticism on the present position supplies a very bad picture. Would you like to suggest therefore that a great deal of restriction should be placed upon those who handle banking institutions or would you wait till the spread of education up to a certain degree?—We say that these are not restrictions but only reasonable safeguards.

2128. Have you any instance or instances of rich indigenous bankers who have thought it fit to employ any of the educated or qualified students in banking?—In fact there is hardly any man who possesses a banking diploma who is out of employment. I refer to those who have taken the diploma course of the Institute of Bankers. I know a number of them who have passed and there is not one that I know of who holds the diploma and is without a job, because there is a great demand for them and a shortage of supply.

2129. So you think that in addition to the various institutions you mention there is opening available for young men who come out of the institutions of bankers, *e.g.*, the large field of the indigenous bankers who

handle crores of rupees who can employ these men?—Quite so, and particularly the indigenous bankers who carry on their business in their own vernacular. That is to say, a Marathi boy can be taken up by a Marathi concern, a Gujrati boy by a Gujrati concern and so on.

2130. Have you any instances of these?—I mean to say that there is so much field for the men who hold the diploma in the joint stock banking that there is no chance for an indigenous banker to get him unless he offers him very good terms.

2131. I want to know whether the indigenous banker who has large resources which he employs in the banking business has recognized the need for modern education on the part of those whom he employs—I wish that could be done.

2132. So there is a great field and you can carry on propaganda?—I am in favour of carrying on very strenuous propaganda and I am sure that would be to the ultimate advantage of the concern. There may be some hardship in the beginning.

2133. Have you any good students who have passed out who have been taken on in any institution?—You may take the case of Mr. Pochkhanawala himself of the Central Bank. I know him from many years. He was on a very small pay as a clerk in the Chartered Bank. After he qualified for the diploma they gave him certain rise in that bank, but there was a limitation because it was a foreign bank. Fortunately for him the Bank of India was started and he was taken there as an accountant. From there he came out and started the Central Bank on a small scale and gradually the institution has risen to what it is now. Here is the example almost of the first student who qualified by taking a diploma in this country.

2134. Did he spend a fairly large proportion of his own money?—He was a poor man, a small clerk. He made his own career, *i.e.*, he is a self-made man.

2135. While approving the exposure of certain important facts when it is intended to secure provision by way of protection from frivolous attacks, what remedy would you suggest for preventing such attacks?—The only remedy that is feasible is that defamation against a bank should be made a criminal offence with greater penalty than now. But to ask for protection such as the Advocate-General's certificate is not desirable for two reasons: The Advocate-General is generally retained by all the banks as their Counsel, so his certificate is not always procurable. I know that in Bombay all important banks have got the Advocate General as their retainer. So being the retainer of a particular bank, if he is to be asked his opinion whether there is sufficient evidence against that bank, I think the Advocate General would refuse to give his opinion.

2136. *Mr. Khaitan*: If a law were to be passed that the certificate of the Advocate General has to be obtained as suggested the Advocate General cannot expect to be a general retainer of all banks,—Even then, what is the value of his certificate?—If a person goes before the Advocate General and makes an affidavit of statement making certain allegations against Institution A, he is not there to shift the evidence or cross-examine and he is not there to hear the defence evidence. On the *prima facie* case before him, he will base his certificate and your *prima facie* caase means nothing. Out of 100 *prima facie* cases, 95 may prove abortive but what

will be the effect of the position on the bank? As soon as it is known that the Advocate General has given a certificate for prosecution against Institution A, there will be a run on it and the bank will be ruined. Ultimately it may turn out that the bank was innocent and some spiteful person had made out a case against it.

2137. *Sir Purshotamdas Thakurdas*: The remedy may be worse than the disease?—Yes.

2138. *Mr. Devadhar*: So what is the relief you would give to an aggrieved share-holder?—We do not want to destroy banks, we want to preserve them. We think that the present law is strong enough. If you want to make it a little stronger, you can enact that in case of bank defamations instead of the simple imprisonment at present provided for, rigorous imprisonment may be inflicted against those found guilty.

2139. You refer to some cases where prosecutions have taken place in the past. Can you tell us what important facts were brought to light by those prosecutions?—There are cases where a prosecution has been justified sometimes and even if it proved abortive, certain facts were brought to light which had to be remedied.

2140. Can you give us some idea of the importance of the facts brought to light?

Chairman: There should not be any difficulty in answering Mr. Devadhar's question. These, I understand, are cases which came before the law courts; that being so, they are public property and there need be no hesitation on your part in mentioning them for Mr. Devadhar's information?—Some of these cases have proved that the complaints made were not frivolous.

2141. *Mr. Devadhar*: How many cases have there been within your knowledge of such frivolous attacks and if the number be very small, would you still advocate legislation?—The number is very small and we are against any legislation. If one stray person out of millions has done it, there is no reason why there should be legislation.

2142. In respect of bad and doubtful debts, you say "it is clear that the Government notification has done incalculable mischief".—Because it has taken away one step in further advance in connection with disclosures to shareholders. A committee was appointed by the Liberal party in England on which the best brains of England sat and made certain industrial enquiries. Their report is entitled "Britain's Industrial Future" and in it they have emphasized that to prevent against all the evils of the Joint Stock system in general one great thing is necessary, and that is disclosure of as much details as possible to the shareholders. If that is so, we say it has taken away one very important item of disclosure, *viz.*, bad debts of a bank standing on its books which have not been written off, the amount of such debts and whether provision has been made or not against it. That disclosure, we submit, an average depositor as well as an average share-holder of a bank is entitled to have.

2143. Can you define roughly its scope? In how many institutions has such a thing happened on account of the Government notification?—It is not compulsory for any bank to show it.

2144. Still there is the auditor's certificate?—The auditors' certificate is no protection. In fact all the banks that have gone into liquidation

had their balance sheets full of bristling figures and in some cases the auditors were chartered accountants.

2145. *Seth Haji Abdoola Haroon*: I see that you want to place certain restrictions on non-Indian banks which you have explained in Part III of your memorandum. I want to know whether your suggestions only mean that the investor should be properly safeguarded as in the case of indigenous banks?—We have suggested one safeguard, because unfortunately in the case of foreign banks they have their head offices outside the country. Some of them may have small branches here and their audits are conducted naturally at home. All we suggest is a deposit of 10 per cent. of their capital or a deposit in proportion to the business they do with Government, and various other statutory restrictions. The object is to make the foreign banks give information which the indigenous banks are expected to give. Non-Indian banks should be required to file their balance sheets and profit and loss account in such form and containing such particulars and including such documents as may be required by the law governing Indian banks.

2146. You have to bring it side by side with the Indian bank?—As far as circumstances will permit.

2147. You are not against anybody depositing with foreign exchange banks?—I am afraid that cannot be done.

2148. The other day a witness suggested a half per cent. tax on Indian deposits with foreign banks. What is your opinion?—I do not think it is possible. Perhaps he has in mind the idea that foreign banks may be discouraged and indigenous banks encouraged.

2149. His idea was that Indians instead of depositing money in indigenous or Indian banks were depositing with foreign exchange banks even at a lower rate of interest; therefore he suggested a half per cent. tax?—That is a point no doubt which has been repeatedly made and I think there is considerable force in it, *viz.*, that the Exchange banks owing to their long standing and owing to their wide scope of business and owing to their capacity for getting money cheap outside the country and lending it here for various reasons are able to do business more favourably in competition with our banks which are new. It will no doubt be advantageous if the Committee could think of a scheme by which as much protection may be given to the local banks as may be necessary in their infant stage. If that is the idea of the witness you refer to, it would have our natural sympathy, but the difficulty is that we have not considered this question in great detail.

2150. But at present I find that many Indians are willing to put their deposits in Exchange banks even at 4½ per cent. instead of 5½ per cent. and 6 per cent. offered by Indian banks?—That may be due perhaps to the stability and standing of the Exchange banks. A second reason may be that they may have less confidence in Indian banks, these latter being new and inexperienced, and they may have to be induced to deposit with them by a larger offer of interest. Before the introduction of joint stock banking, even in England, there were private bankers and these private bankers were there for generations and they had actually the monopoly of the business within their sphere of influence. When new joint stock companies came into existence, they had the same difficulty to cope with, because no member of the staff of private banks would serve under them.

New institutions with limited liabilities, inexperienced and new directorate, have difficulties to contend with.

2151. Do you think that on account of the recent failure of some banks in Bombay, Karachi, Burma, etc., investors are nervous?—They are; they think their money is not as safe as they would like it to be.

2152. Then you do not want to put any sort of restrictions on these foreign Exchange banks, *e.g.*, that they should not get more deposit money from Indians, or a half per cent. tax as one witness suggested?—We have not any definite scheme on that point, but we should like the Committee to consider the question. It is not a question to be ignored.

2153. Referring to industrial banks, credit facilities and so on, I think what you have in mind is industries such as the textile industry, the Tata Iron and Steel industry?—An industrial bank is expected to finance or help almost all industries, particularly such new industries for which in the opinion of the experts employed by them there is a great possibility in the country.

2154. But what is your opinion as to the industries which require help from industrial banks? Can you give some examples?—Supposing a person comes out with an idea about the glass industry, he may want to put in a plant and import some experts and work with Indian workmen. A commercial bank would naturally hesitate to give him an advance, because their money would be locked up for an indefinite period and if the industry is unsuccessful, they may lose all their money and their block capital. Therefore you should have an industrial bank to help them, *e.g.*, under-writing their shares and gradually selling them out, keeping a certain supervision.

2155. Can you suggest how to obtain capital for these industrial banks? I do not think depositors will put any amount in the industrial banks on long-term deposits? Generally the deposit system in India is six-monthly?—It is generally one year; when deposits are made for three or six months, you get a much lower rate of interest.

2156. If an industrial bank went in for one-year deposits?—It may take long deposits, say five-year deposits.

2157. But do you think people will come forward to deposit for such a long period?—They will, if the bank's stability is guaranteed by the State and there is a guarantee of fixed dividend from Government. The industries which are financed will be industries for which there will be a future. If out of ten cases one failed and nine were successful, the banks will be well off.

2158. You know that at present in India industries require money, but there is a still larger necessity for zemindars and agricultural people who want to develop their lands and wish to have long-term loans?—They can have agricultural banks of their own which is beyond the sphere of point stock commercial banks with which we are dealing. They can have special agricultural banks under the Companies Act or a separate Act.

2159. What do you think is the more urgent requirement of India, industrial bank or agricultural bank?—I would plank for both.

2160. You suggest that facilities for banking education should be given by foreign Exchange banks. I think I read in the papers some time ago that the Turkish Government have framed some laws that foreign Exchange

banks should take some apprentices?—I do not know anything specific about it.

2161. I read in the papers about some law on the subject.—That is done by all nations, particularly by those whose banking is not developed to a high pitch. I gave the instance of Portugal, Spain, Italy, etc.

2162. *Chairman*: There is a short account in the paper which has already been circulated to members which indicates that no special restrictions have been imposed on the operations of foreign Exchange banks.

2163. *Ch. Mukhtar Singh*: Is there any regulation or legislation in England by which the foreign banks are required to employ a certain number of Britishers?—Not that I know of.

2164. You have advocated the starting of industrial banks for the flotation of companies undertaking new industries. Some witnesses have told us that the industrial banks should precede the starting of new industries and the banks should only provide for the current expenditure of these industries. Would you change your opinion in the light of these remarks?—An industrial bank must be there at first. The presence of an industrial bank will make it possible for new industrial enterprises to come and function with their help.

2165. Your opinion is that industrial banks should precede the starting of new industries?—Yes, because they will help the starting of industries. There may be new industries by private loans, but we want to help industries by a special institution.

2166. A stimulus is only possible when an industrial bank is started?—If it is started, many industries will crop up which are not coming into existence through private enterprise working on its own for want of financial facilities under the present system of banking.

2167. You consider that the hindrance in the way of new industries being created in the country is the want of an industrial bank?—An industrial bank would stimulate new industrial concerns coming into existence.

2168. You want to prohibit industrial banks from taking current account deposits?—Yes.

2169. If that be accepted, would it not be very difficult for the industrial bank to provide money for the working of the industrial concerns?—The object of asking them not to take current account deposits is that most of their money will be invested and locked up in what you call block capital in financing concerns whose money is not immediately available on demand, whereas in the case of commercial banks they only give temporary advances and they can therefore run current account deposits to advantage.

2170. The industrial banks can set aside the current account deposits for advances for the working capital?—Working capital in what form? The working capital is generally given to the concern on long-term loans. They are not short-term loans.

2171. What is the working capital?—Working capital is the amount which is wanted for the current work. This working capital will be required by the industries in long-term loans.

2172. This working capital will not be in small amounts. You want the industrial banks to do business as the joint stock commercial banks. The joint stock banks do advance money for working needs of industries and you do not want the Industrial Bank to do so?—No, it is dangerous for an Industrial Bank to do so.

2173. Do you consider that the joint stock banks will provide that money?—As far as I understand a good amount at least from our Indian banks has been given as temporary loan on proper security.

2174. Do you consider that the loans given are adequate enough?—No. The difficulty of current accounts is this. The current account may not be utilised for giving temporary loans for working capital to various concerns.

2175. How do you define long-term deposits?—Deposits at least for one year.

2176. In your statement you refer to the signatures of the Managing Agents required by the Bank. Do you say that the Bank requires the signatures of the Managing Agents in all cases or is it only in cases when security offered is not adequate?—I have discussed this question with a manager of a leading bank and he has told me that they are prepared to give loans on the pledge of goods, failing that on the signature of the Managing Agents.

2177. You advocate the starting of ware-houses for the deposit of raw material as well as for manufactured goods?—Yes.

2178. Are such ware-houses to be kept separately for different mills or the entire goods are to be mixed up together?—They may keep the godowns or ware-houses separately. A godown for cotton, another godown for raw materials and so on.

2179. Do you consider the currency reforms should precede the banking reforms?—We want them simultaneously.

2180. You want to see the Indianisation in the Imperial Bank?—Yes.

2181. What practical steps you propose?—I say recruitment from England should be stopped.

2182. Do you feel there is no dearth of qualified Indians to take charge of responsible posts?—If recruitment is stopped, there will be no difficulty: our men who have experience of banking will take up those posts.

2183. Is there any sufficient opportunity for Indians?—Yes, the rule of supply and demand is there.

2184. In your statement you say that the Government of India held some conference and discussed with public bodies in relation to banking legislation; would you please let us know if the details of the discussion are available?—Yes, they are.

2185. Was any action taken by Government?—I think so. From the Report of the Bombay Chamber of Commerce for 1914 I am reading. Certain opinion was invited from public bodies by the Bombay Government They were sent and an informal conference was held in which the Advocate-General of Bombay, the Registrar of the Joint Stock Companies and the representatives of public bodies and associations were present. It was under the chairmanship of Sir Moon. These opinions were discussed and I find that these opinions are printed in the Bombay Chamber of Commerce report for 1914, at page 252.

2186. Do you consider it advisable to give the power of refusal to the Registrar for registering a joint stock concern?—Yes. In this connection I would refer you to the report of the Central Provinces Banking Committee.

2187. *Chairman*: Mr. Mukhtar Singh wants to know the opinion of your association?—Yes, but the report of the C. P. committee was issued

long after our memorandum and it supports our view mentioned in the memorandum.

2188. Do you consider in such cases any revising Authority is necessary? —Yes, an appeal must be allowed.

2189. You suggest the total prohibition of investment by a bank in shares and debentures of joint stock bank?—Yes, as far as possible.

2190. Do you mean that the debentures of the industrial bank should not be taken by the joint stock bank?—I say debentures should be taken if they are guaranteed by Government about the interest, etc.

2191. Do you like the idea that the Joint Stock Banks should purchase shares or debentures issued by the Joint Stock Companies?—Not in a large quantity. I know there are certain Directors who are interested in certain Joint Stock Companies and they make the banks buy shares in large quantities. If all the shares are purchased by the banks, there will be a clash. Therefore, I say the Joint Stock Companies' shares are not a desirable investment.

2192. If debentures are issued by an Industrial Bank or by a mortgage bank, would you like the idea that the debentures should be purchased by the Joint Stock Bank or the Mortgage Bank?—We say that as far as possible it is better to have the functions of the two banks separate.

2193. A mortgage bank may issue debentures and you do not like the idea that joint stock banks should purchase them?—No, we do not; we consider it a risk.

2194. Do you think that the mortgage bank is much safer?—It all depends on what sort of land or premises they have advanced money on.

2195. In that case it is very difficult to sell debentures in the market?— Debentures are not meant for banks, they are for the public.

2196. To buy and sell shares is not the business of the joint stock commercial banks?—No. It is a sort of speculation. From the point of view of banking business it is desirable that all the capital of the bank should be in liquid assets.

2197. Do the banks in any other countries do this business?—We do not know it.

2198. Is it a general practice to appoint as liquidators of a bank the same persons who have been Director, officer or Auditors of the Banks?— Frequently.

2199. Are there many complaints of this procedure?—The procedure is undesirable.

2200. My point is whether such cases are very frequent?—We have seen this always.

2201. *Seth Haji Abdoola Haroon*: You want to say that the liquidators should be outsiders?—Yes.

2202. *Ch. Mukhtar Singh*: You said that Indian students should be sent to foreign countries to learn Exchange business; do you feel Indian students will be allowed better facilities in their own country?—There are two ways of doing this. One is to ask the banks to send the boys who are in a position to meet the expenses in London to their head offices in London for training.

2203. But we are told that it is difficult to get training in London for Indian students?—So, it is. Therefore we are suggesting this arrangement.

2204. But how is it to be made?—It should be one of the conditions of the license.

2205. Regarding the question of the removal of the chairman and the director, why do you not follow the Canadian Bank Act?—The Canadian Act provides for the removal in case of mal-administration or any other good cause. We have suggested that there should be re-election after every three years. Our suggestion is moderate.

2206. *Mr. Khaitan*: In answer to the Chairman you said that ware-house authorities may advance moneys against the stocks kept in those ware-houses. Do you not think it would be better if the ware-house authorities were impartial in the matter and allow the financing business to be done by the banks or indigenous bankers?—If they choose they may do so.

2207. So far as non-Indian banks are concerned, you said that they should be given a license and certain restrictions should be put upon them. Now, some Indian witnesses have suggested that they should be prevented from receiving deposits in India just as the non-national banks in other countries are?—There are great difficulties in the way. We have discussed this question in our committee and we have come to the conclusion that stopping of deposits with the foreign exchange banks is undesirable under the present circumstances. Immediately we do so a large amount of money will go out of the commercial community's hands.

2208. What is your idea about the non-Indian banks opening branches in the interior of the country?—As far as possible they should be restricted to do so. And every encouragement should be given for the Indian banks to open the branches.

2209. Now, in your memorandum you advocate the appointment of an officer for the control of banks, I presume it is your intention that such officers should be appointed by Government?—Yes.

2210. Are you aware of the impression among Indians that officers of this kind appointed by Government are prejudiced against Indians?—That officer should be an Indian.

2211. So, would you like to have a condition put like that?—Yes.

2212. It has been mentioned by a witness that under the present fiscal policy of Government it is very difficult to develop new industries in the country. What is your view?—We think that the fiscal policy of the Government should also be so adjusted.

2213. *Sir Purshotamdas Thakurdas*: You evidently attach some importance to the term 'bank' being used and you therefore say that its use should be restricted under certain conditions. Would you also restrict likewise the Savings bank business of banks? You know the Savings bank is really intended for the small depositor, and do you not think that his interests also should be properly safeguarded?—We do not think that there is any further restriction necessary so long as the operations of the bank is regulated.

2214. For instance, you would not stipulate that the amount invested in savings bank business of a bank should be invested in gilt-edged securities?—There is no restriction necessary with regard to the Savings bank business.

2215. You have given a definition of what legitimate banking business is. I suppose that is what you want to be legalised?—Yes.

2216. So then you want your definition to be based on the restriction to be imposed on the business of a bank?—Yes.

2217. In reply to the Chairman you said that some special safeguards should be provided for Indian depositors in the event of winding up of non-Indian banks. Would you have these safeguards limited to depositors or all those who have had dealings with the bank, *e.g.*, people who have sent in bills for collection, etc.?—All the Indian creditors should have the same safeguards.

2218. *Dr. Hyder*: Would you give them first preference, the depositors, I mean?—All Indian creditors should be placed on the same footing.

2219. *Sir Purshotamdas Thakurdas*: You have suggested that the depositors in an Indian joint stock bank should have some voice in the control of the Bank and so you suggest that they should be given the privileges of the vote in getting one of their own representatives elected to the Board of Directors?—Yes. Our idea is that the Indian banks should be benefited in the matter of attraction of their deposits.

2220. To that extent handicapping the foreign banks working in this country?—Not necessarily. It may be handicap to this extent; that the depositors of the foreign exchange banks will not have a vote in the management of those banks, but depositors in an Indian bank will have.

2221. *Chairman*: So far as I am aware, the foreign insurance companies working in this country do not give its policy-holders the privilege of electing their Directors, whilst their Indian compeers do. In spite of this so called draw-back in not having the privilege of the vote, foreign insurance business has never fallen. Is that not so?—You are perfectly correct and that is why we say that for the benefit of having a vote, we need not presume that Indian depositors of Exchange banks will withdraw their deposits from those banks and invest them in Indian banks.

2222. *Sir Purshotamdas Thakurdas*: Then is it your inference that the Indian banks do not possess that amount of confidence from the public as the Exchange Banks do?—Yes, that is one of the reasons, amongst many others such as want of confidence in the Directorate and the management, etc. Likewise, people have not got full confidence in all Exchange Banks.

2223. You know that the Japanese bank which went down a couple of years ago had a very good block of deposits in this country. Then what is it that you think should be done to protect the interests of the Indian depositors in such banks?—We have suggested that there should be some sort of a local advisory committee, two-thirds of which should be Indians.

2224. With regard to the mode of valuation of securities, do I understand that your association would like to have some sort of information supplied to the share-holders in the reports which are issued by banks giving information as to the depreciation or appreciation of securities in the Bank's possession?—What we wanted to imply is that the securities should be shown at its lowest value, the market price or the cost price whichever is less. The Report should also state how far the securities have depreciated.

2225. Supposing a bank had Government of India 3½ per cent. paper and the market rate was 50, you will have no objection to their showing

it at 40?—We will have no objection if that is made clear in the report. All that we are particular about is that it should not be higher than the cost price if the cost price is lower than the current market price.

2226. Now with regard to the papers that you have circulated giving the information about a few banks which went into liquidation, I wonder how is it you have omitted to give details about the failures of the banks like Shilotri and Morvi Banks?—(Mr. Kapadia) The information was not available for us. To minimise these bank failures we have suggested that auditors should be permitted to make surprise visits on banks to examine their accounts.

2227. With regard to your suggestions regarding the auditor's certificates, am I to understand that those are the suggestions of your Association which you want to be legalised?—Yes, legislation something to that effect must be undertaken.

2228. What is it that you would like the auditor's certificate to be supplemented by?—We have made our suggestions quite clearly that they should state whether the securities held against loans fully cover in each case the value of the loans, and other suggestions are given on page 28 of our written memorandum.

2229. Now in regard to the specimen of the auditor's certificate of the Barclay's Bank which you have given which reads "We have compared the above balance sheet with the balances on the books at the Head office, and with the detailed returns from the branches. We have verified the cash with the Bank of England, the cash Bills at the Head office, the investments of the Bank and the securities held against money at Call and Short Notice * * etc.". I suppose that is all the change that you want in regard to the auditor's certificate?—Yes, besides the other suggestions made.

2230. And so far as the branches are concerned you think that the detailed reports of the local branch auditor should be made available to the auditor of the Bank?—Yes.

2231. And you think that will give a greater protection to the shareholder of the bank generally than it is today?—Yes.

2232. I put this question and rather elaborate it only to find out your complete views on the point, because I presume your suggestion to be ideal, generally speaking. Have you any other suggestions to make with regard to this?—We suggest that the auditor should be at liberty to make any report as he wished during the course of the audit which should be placed before the Directors for their consideration at a special meeting. Our experience is that auditor's interim reports are never placed before the Directors by the Managing Agents although the auditor in his statement says that it should be done.

2233. Have you seen many instances like this?—There may not be many instances, but still the evil should be removed. To quote an example it was at my insistence that the Managing Agents of a leading joint stock concern in Bombay called meetings of the Directors to discuss the auditor's report. The Managing Agents did not draw the attention of the Directors although they were specially called upon to do so by the auditor.

2234. So, that amounts to very nearly a fraudulent omission?—I would not call it fraudulent but the fact remains that action was not taken, because the law at present does not stipulate that condition. Therefore, I suggest that the auditor should be permitted to send simultaneously his

report to the Managing Agents and also to all the Directors of the concern, so that they might take immediate action thereon.

2235. And you want this to be provided for by law?—Yes, as it is already in vogue in Canada under the Canadian Bank Act, section 55.

2236. You have made certain suggestions with regard to the working of the managing agency as applied to joint stock banks and you say that it is as undesirable as it is unwarranted. Do you find several instances like that?—Recently a bank was started with a firm as Managing Agents. We applied for the Articles of Association of that concern and we got it.

2237. If you do not mind giving us a short memorandum on the subject setting forth all relevant details, that will be very helpful to the Committee?—We shall be very pleased to do so.

2238. We shall also be pleased to have the names and other details of other institutions in the same category?—Yes, we shall furnish details.

2239. You suggest that the term of the office of the Managing Director should be settled at the General Meeting. Do you not feel that in making suggestions of this nature, you are seeking to make the body of share-holders responsible as it were for practically running the Bank?—On reconsideration we think that our later suggestion in our written memorandum "Notwithstanding anything contained in the contract, the Managing Director shall be removable from his office in the same manner as any other Director" may be deleted. In regard to this, we may say that these conditions have been placed before the Committee for its consideration as we think the present-day banking conditions require such changes to be made. One of our principal complaints is that the present day constitution of the Directorate of joint stock banks is not proper and it is for that reason that we have provided for this safeguard. But if the constitution of the Bank Directorate is going to be altered in the way we have suggested, then no safeguards may be necessary.

Witness: The legislation is meant for objectionable banks particularly; the same legislation would not harm good banks. In the case of first class banks there is no fear of the managing director being removed by an unreasonable attitude on the part of share-holders.

2240. You are of course basing this opinion on what you said today?—Yes. (Mr. Shroff) I think that a paid manager should not be elected by an open meeting of share-holders in the interests of the bank itself. I object to that on principle.

2241. *Sir Purshotamdas Thakurdas*: Would I be correct in inferring from your other suggestions that you really want the whole system of working joint stock companies in Bombay or in India to be changed substantially and hence your suggestions regarding restrictions on Directors, Auditors, etc.?—We want to change the Joint Stock Companies' Act.

2242. Do you think that the working of joint stock banks is so objectionable that you would like to have the whole thing changed; and is that why you suggest so many restrictions on Chairman, Directors, Auditors, etc.?—That is so.

2243. So these remarks are based on this that you think that the present system of working joint stock banks is not satisfactory?—That is our opinion.

2244. *Chairman*: There is one question which I would like to ask. In paragraph 9 (*b*) of your memorandum you have said that non-Indian banks should be required to file their balance sheets . . . . . I suppose your intention is that these should be audited?—Yes.

2245. Now, in the case of industrial banks you have admitted that there may not be any immediate need for them, at any rate not till the industries which require their assistance are established. You have also admitted, in reply to Mr. Khaitan, that until the present fiscal policy of the Government changes, the requirements on the part of industries may not be great?—With all respect, Sir, we beg to differ, because in what we said we meant just the contrary. We said that the industrial banks are absolutely necessary, because we think that the establishment of the industrial banks will stimulate industries.

2246. Then your point is that the industrial banks should be started even if the industries may not be there to require their assistance, because you think that the starting of industrial banks will stimulate industry?—That is one direction in which the industrial banks could be helpful. But even at present there exist industries which could be helped by the industrial banks.

2247. Have I correctly interpreted your answer to Mr. Khaitan that unless the fiscal policy of the Government changes, there may not be sufficient scope for these industrial banks?—Mr. Khaitan's point was that in order to make the industries successful, in certain cases the fiscal policy may have to be readjusted. We agree to that.

2248. Is it really your intention that through this scheme of industrial banks—if I may say so—in advance of development of industry you want to force the hands of Government in granting protection?—We are not in any way trying to force the hands of Government. We are only asking for what is legitimately due to the country, and we see no reason why an enlightened Government like the British Government should refuse to help industry with our own money.

2249. *Sir Hugh Cocke*: Supposing that there are no industries which can be established, then the case for an industrial bank falls?

2250. *Chairman*: I do not wish to press these gentlemen on that point because I find that they have not devoted full thought to the subject.—But Sir, if you want a written statement on that point, we will certainly send one.

2251. You said a little while ago that your Association consisted of something like 500 share-holders as members. As a matter of curiosity, could you give me just a rough estimate of what the total number of individual share-holders all over India is?—We are only the Bombay Share-holders' Association, and our present activities are confined to the Bombay Presidency. There is another association like ours in Calcutta, and a third one has recently been started in Madras under the chairmanship of Dewan Bahadur Ramchandra Rao. Sir Hari Singh Gour is the Chairman of the Calcutta Share-holders' Association and Mr. Nalini Ranjan Sarkar its Secretary.

2252. In answer to one of my earlier questions you said that your Association was open for membership to share-holders all over India?—Quite so; but there are associations in other parts of India.

2253. Can you give me an estimate of the total number of individual share-holders in the Bombay Presidency who can be members of your Association?—Unfortunately there are no data from which we could give you any useful information. But if you want to know what capital is represented by our Association, we could tell you.

2254. How much capital is represented by you?—I could say it runs into crores; some of the members are millionaires.

2255. I was interested in trying to obtain an estimate of the individual share-holders of the Bombay Presidency who are members of your Association. You see it is not the people who hold crores whose interests require to be safeguarded; it is the small investor who stands more in need of protection as against the man holding a very large number of shares against whose influence your Association wants to protect the small investor?—May I point out to you, Sir, that the small investor often wants his case to be argued out by the big investor because he thinks that the big investor will take greater interest. We have a definite rule in our Regulations that nobody who is in any way interested in any managing agency is eligible to be a member of our Committee.

EIGHTH DAY.

Tuesday, the 26th August 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Mr. MANU SUBEDAR.
Sir HUGH COCKE, KT.
Dr. L. K. HYDER.
Mr. W. LAMOND.
Mr. R. W. BUCKLEY.
Mr. G. K. DEVADHAR, C.I.E.
CHOUDHRI MUKHTAR SINGH.
Seth Haji ABDOOLA HAROON.
Mr. R. K. SHANMUKHAM CHETTY.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Messrs. H. P. Bagaria and M. P. Gandhi, representatives of the **Indian Chamber of Commerce, Calcutta,** were examined.

2256. *Chairman*: Mr. Bagaria and Mr. Gandhi, you represent the Indian Chamber of Commerce, Calcutta?—Yes.

2257. Am I correct in assuming that there are Indian Chambers for practically every province of India and that your Chamber's activities are confined to Calcutta and to Bengal?—That is so. We sometimes deal with all-India questions also.

2258. That is another matter. Your personal activities are confined to Calcutta and also to Bengal outside Calcutta, because you are not the only Merchants' Association even for Bengal?—Practically all the most important Indian merchants are members either of the Chamber or of the Associations that are affiliated to this Chamber.

2259. Is the Bengal National Chamber of Commerce affiliated to your Association? They have sent a separate memorandum to us and are coming up separately for evidence.—They are not affiliated to our Association, but we have 11 or 12 associations affiliated to the Indian Chamber of Commerce.

2260. What sort of Associations?—Associations dealing with manufactured jute goods, produce merchants, the Calcutta rice merchants, iron merchants, etc.

2261. There are various trading associations—Yes.

2262. *Dr. Hyder*: In the City of Calcutta or in Bengal?—In the City of Calcutta.

2263. *Chairman*: You say that the Imperial Bank of India has been precluded from engaging in exchange business as a concession to the powerful foreign banks. Have you considered that the present prohibition may be due to the fact that the Imperial Bank are the bankers to Government and that the Government may have considered dealings in exchange business as risky and likely to endanger the safety of their balances?—It

is quite possible that that might have been the consideration which weighed with Government, but the result of that has been that the Exchange banks have got a monopoly of financing the external trade of this country.

2264. You say that the share of Indians in the immense foreign trade amounting to 570 crores of rupees is less than 15 per cent. It is said that internal trade amounts to many times the foreign trade in volume and that the major portion of the internal trade is in the hands of Indians. Can you tell the Committee whether the resources of the merchants engaged in the internal trade are not fully employed in the internal trade?—Even if they are, there is no reason why Indians should be precluded from engaging in the export and import trade.

2265. But you cannot definitely answer my question?—Even in the internal trade the European merchants are making serious inroads. The Indian merchants engaged in moving the crops from the mofussil to the ports and from the ports to the mofussil are now finding serious competition from the exporting and importing European houses.

2266. Even that does not answer my precise question. Can you tell the Committee whether the resources of the merchants engaged in the internal trade are not fully employed in the internal trade?—If the intention of the question is that there are no Indian merchants with any resources who can engage in the external trade of the country, the answer is in the negative. In fact I can say that there is considerable unemployment among the trading classes at present and there are many merchants who have nothing to do. If they had the banking facilities necessary for this purpose, they would readily engage in the trade.

2267. But my point was: Have these merchants under present conditions any surplus resources available which they can employ otherwise than for the financing of internal trade?—Their own resources are sufficient for engaging in the external trade.

2268. Your point is that they have sufficient resources not only to finance the internal trade, but to finance the foreign trade?—Yes.

2269. There is no lack of resources at the present moment on their part?—No.

2270. *Mr. Shanmukham Chetty*: Do you mean capital?—It may be capital or deposits.

2271. *Chairman*: Some outsiders are making incursions in the field; even so, the resources at the present moment at their disposal are available for financing the whole of the internal trade which is in their hands and there is a certain amount of surplus also left?—Yes, that is so.

2272. Can you also give the committee any idea of the terms on which credit facilities are made available in the internal trade and in the external trade?—As regards the internal trade, we have dealt with the question very fully in our memorandum to the Provincial Banking Enquiry Committee. Regarding the external trade, the only facility available to the Indian merchants is that they can get their bills drawn under a confirmed letter of credit through a first class London bank discounted with the Exchange banks doing business in India. Besides that, I do not think there are any other facilities available to the Indian merchants.

2273. Only if they have this particular method, they can participate in the external trade?—Yes.

2274. *Seth Haji Abdoola Haroon*: What about the European firms?—From the information we have we can say that the European competitor of the Indian exporting and importing houses can sell on terms other than a confirmed letter of credit.

2275. And the Exchange banks are taking their bills without the letter of credit?—It naturally follows that the Exchange banks must be discounting their bills.

2276. *Chairman*: In your memorandum you say that the indigenous bankers who were known as Shroffs, Sowcars or Chetties financed the entire trade of the country before the advent of the British rule. Can you say what proportion of the entire trade in those days was foreign trade?—We are sorry we have not got any figures to determine the proportion of the foreign trade to the internal trade before the advent of the British rule, but the foreign trade must have been very little in those days owing to transport and other difficulties.

2277. You refer to the Sowcars and Shroffs holding the field of finance during some period in the past. Can you tell the Committee what his decline from that high position is due to?—We have already mentioned in the memorandum the various reasons that are responsible for the decline. When foreign banks came into existence, the position they enjoyed in the community disappeared, consequently the resources were limited and they could not finance trade to the same extent as they used to do.

2278. The decline had not started before the commencement of British rule in this country?—No.

2279. It has been suggested by one provincial banking enquiry committee that the decline of the indigenous banker is due to the great development of commercial banking and that if this development continues, it is difficult to revive the indigenous banker on a large scale. What would you say to this suggestion?—I do not agree with the view that the decline of the Sowcar is due to the development of joint stock banking because the resources must have come to joint stock banking, but we find that they have not come to the joint stock banks also. The facilities afforded by the Shroffs may have been replaced by the facilities afforded by the joint stock banks.

2280. I referred to the development of commercial banking. In your reply you refer to joint stock banks: I take it you refer to all joint stock banks, not to the Indian joint stock banks only—Yes.

2281. You have nothing more to add?—No.

It has been suggested by one well-known authority that by the end of the 18th century the indigenous bankers had been shorn of much of their glory owing to wars and unsettled conditions of life in those days, the evasion of their claims by ruling Princes, the adoption of questionable practices on their part, and the introduction of a uniform currency in India in 1835 depriving the indigenous bankers of much of the profits from money-changing. Have you anything to say in regard to this suggestion?—We do not agree with this view, because it is the experience of the members of our Chamber that up to 25 years back the Shroffs played a great part in the financing of the trade of this country.

2282. Which trade?—They did not play any part in the external trade, because their resources were not such as they could engage in the financing of the external trade.

2283. Are not they still playing a large part in financing the internal trade of the country?—Not to the same extent as they used to do.

2284. You say that as a first step towards the development of Indian banking it is necessary that steps should be taken to effectively link the indigenous bankers to the banking organisation of the country. Can you tell the Committee what exactly you mean by indigenous bankers? Do you include the large class of moneylenders who do not do deposit business?—In our opinion there are no Shroffs who do not receive deposits. Practically most of the Shroffs that we know receive deposits as well as lend money.

2285. It is said that one important function of a banker is to accept deposits, but that such deposits constitute a very small fraction of the working capital of indigenous bankers. It is further added that deposits are more often taken by indigenous bankers who have extensive business of other sorts and are used generally for the purposes of financing their own business other than banking. Can you tell the Committee what attitude is adopted by the indigenous bankers whom you have in mind in regard to the receipt of deposits? You said a little while ago that in your experience it is practice of all Shroffs of indigenous bankers to accept deposits. You stand by that answer?—Yes.

2286. We have been pursuing it at some length in the past week or so. We had before us an indigenous banker from Bihar who said that he did take deposits but that his banking business had been in existence only for sixty years and before that he used to do only trading business. He was asked whether there was any competition in regard to deposit business from other sources, *e.g.*, the Exchange Banks or the Imperial Bank or the Indian joint stock banks; he said there was not, because at that particular station this competition did not exist. Asked whether there was no possibility of attracting more deposits, he said there was, but his difficulty was that it was not possible for him to find adequate employment for the money. Owing to difficulties in realising advances arising out of the proverbial Court's delays, he was not in a position to expand his loan business. Does your experience deal with the state of affairs in the United Provinces, in Bihar and Bengal or is it confined only to Bengal?—It extends to Bombay, Rajputana and Bengal.

2287. It is confined to Bengal for the present purpose, because Bombay and Rajputana are outside your purview and when the Indian Merchants' Chamber, Bombay, come before us we will have an opportunity of pursuing the matter further with them.—They are not outside our province in that we have many members who originally came from Rajputana and we have members from Bombay also.

2288. I fully realize that, but you told me in answer to my first question that the activities of your Association are confined to the province of Bengal, because there are Indian Merchants' Chambers in other parts of India. That being so, I am pretty sure that the proper body to whom a similar question is to be addressed in regard to the conditions prevailing in Bombay is the Indian Merchants' Chamber, Bombay. As your activities are confined to Bengal, we are trying to find out from you whether it is your experience of Bengal that Shroffs generally do take deposits—Yes.

2289. In this connection three bodies gave evidence before the Bengal Provincial Banking Enquiry Committee, *viz.*, the Indian Chamber of Commerce, Calcutta, the Bengal Chamber of Commerce and the Bengal

National Chamber of Commerce, Calcutta. Your Association, in answer to Q.-1, stated that the indigenous bankers transact certain kinds of business of which one was receiving deposits on interest. Unfortunately in answer to another question as to the rate of interest paid on these deposits, you gave no answer. Naturally one may be pardoned if he therefrom gathers the impression that this custom of deposit taking is not so prevalent as it is urged to be, because in that case the rate of interest paid would have been supplied. The Bengal Chamber of Commerce, talking of indigenous bankers (shroffs and mahajans) said 'the shroffs trade on their own capital and do not as a general rule accept deposits from the public. Any deposits received by them are usually from relatives or from friends by private arrangement.' Then we come to the Bengal National Chamber of Commerce. They said that the big Marwari banking houses of Calcutta carry on more than one form of banking business; some of them accept deposits and undertake extensive lending operations. Then as regards the mofussil they say that in exceptional cases a few of them in towns accept deposits and that it should be particularly noted that such practice of either accepting deposits or issuing cheque books remains still an exceptional feature of indigenous banking in Bengal. That is at least their experience. The Bengal Committee, not satisfied with these, asked members of some prominent firms of indigenous bankers, both in Calcutta and outside, to give evidence before them. This brings out the difference more clearly. You are aware that the indigenous banker of Bengal primarily is the man known as the 'Poddar'. He was there before the indigenous bankers of other communities made their appearance in that part of the country. It is the Bengal equivalent for the word 'shroff'—It is used in other parts of India also.

2290. My personal knowledge is that even these Bengal Poddars at an earlier stage migrated from other parts of the country. They are not wholly Bengali by race. There is a gentleman who is a partner of the banking firm "Budhunath Sukhlal Poddar" of Dacca town who says "our firm is of not less than 50 years' standing." Then he says 'we don't receive deposits now; this business has been given up on account of the failure of certain firms at Dacca in recent years.' That indicates shaking of public confidence and not the fact that they have been driven out of the business by other competitors. Another Dacca firm 'Jagabandhu-Prasanna Kumar Sen' of Dacca town, the biggest indigenous bankers of Dacca, say 'we do only hundi business and not money-lending, nor do we receive deposits from the public or others.' Then we come to another statement by Mr. Rajani Kanta Pal, one of the biggest indigenous bankers. He says the same thing 'nor do we receive deposits.' Mr. Golab Chand Somani, one of the proprietors of the firm of Lachminarayan Rambilash and in charge of the firm at Chittagong, says "We carry on our business with our own capital, but if any man lends money on favourable rates of interest, we accept that too. We take deposits from outsiders if the interest is within eight annas per hundred per month. In busy seasons, we take deposits at slightly higher rates also." Then he goes on to say that he has not suffered in the matter from competition of anybody and there is no prejudice against indigenous bankers here. Rather the public generally prefer good indigenous bankers to foreign and company banks. The indigenous bankers offer greater facilities. The indigenous banks and bankers are not able to meet all demands for accommodation here, and that principally for inadequacy of funds, even though the security is sufficient. He has said that the public have greater faith in them and therefore they have got more

clients or more business than any other of the competitors. Still if people are willing to deposit money with them, why they should not be able to secure sufficient capital to enlarge their business passes my comprehension. Then we come to another witness, Mr. Niranjan Bhuia (one of the proprietors of Messrs. Harish Chandra Ram Kanai Bhuia and in charge of the Chittagong branch of the firm) who says he does not do any banking business. Of course he deals with hundis, he apparently does not think that is banking business, but he does not take deposits. Then we come to the Calcutta Indigenous Banking firms (Joint memorandum on Indigenous Banking in Calcutta by Mr. Kasturchand Kothari, etc.) who say 'the indigenous bankers of Calcutta do almost all types of banking business, *viz.*, receive deposits at interest and lend on personal credit, security and guarantee for financing trade and industries.' They also say that the maximum rate of interest on deposits in Calcutta is Rs. 5-13 per cent. per annum. Reading these answers, the provisional conclusion which naturally would arise in one's own mind is this: deposit taking among indigenous bankers is largely confined to Calcutta, outside Calcutta it is more the exception than the general practice.

2291. *Chairman*: Will you please tell the committee whether you have anything in your personal experience which will enable you to rebut this provisional conclusion?—The Indian Chamber of Commerce has already given answer to the Provincial Enquiry Committee.

2292. You say that the indigenous bankers receive deposits on interest. But the question was put by the Provincial Enquiry Committee as to what rate they were allowing on various accounts, there was no reply. In fact the Chamber said that "at present the indigenous bankers or shroffs carry on their business with their own funds. With the growth of banks in big centres, shroffs or indigenous bankers have got branches in the mofussil." When I see the report about the mofussil, I do not find any evidence which supports that statement. What do you say?—There are two classes of banks. In one case they receive deposits and in another case they do not receive.

May I pursue this point? You say that the indigenous bankers in Calcutta do take deposits?—Some of the branches in Calcutta do receive deposits.

2293. But they do not say so. In Calcutta there is a firm of bankers, named Kasturchand, and they inform us that the deposits are not taken by any of their branches. There is another who say that they do not take deposits?—As I have already stated there are two classes, one receive and the other do not receive.

2294. I should like not to be misunderstood; so far as I am concerned, I fully appreciate the desire to see that the indigenous banker takes a proper place in the banking business of the world. But I want to find out particularly the point between the conflicting evidence that is before us.

2295. You refer to the amalgamation of small banking houses in England. Can you tell the committee what has prevented such amalgamation among the indigenous bankers in India?—They do not see any benefit in amalgamating.

2296. But you further say that indigenous bankers should be encouraged to combine and start joint stock banks. What practical steps do you suggest for achieving this end?—We suggest that because we think that better conditions will prevail with the establishment of the Reserve Bank.

2297. This is a very vague observation?—We have read the evidence given by the Marwari Chamber of Commerce and we support the suggestion put forward by them. If these indigenous bankers are made members of the Reserve Bank, we are sure they will get great facilities and naturally the difficulties will be removed.

2298. Do you mean to say that they should be compelled to do so?—They should not be compelled. They would naturally come, when they find that the scheme is advantageous to them.

2299. Do you practically support the views of the Marwadi Chamber of Commerce that these indigenous bankers should be allowed to take part in the future banking system of India?—Yes.

2300. You say that joint stock banks should be encouraged to appoint the local shroff or shroffs to act as their agents in small towns where the banks have no branches, and that by this means it will be possible for the banks to reach the smaller merchants who during the busy season require financial facilities for moving crops. If the appointment of shroffs as agents is advantageous to the banks, can you suggest any reason why banks hitherto have not adopted the practice?—Unfortunately there are many banks in the mofussil. The exchange banks have also very recently started coming into the interior of the country. These banks have branches in the mofussil and they get the local advisory committees also.

2301. I am not talking about the local advisory committees. You say that the joint stock banks should be encouraged to appoint the local shroffs. Now, the point is why these banks have not hitherto adopted the practice which you now recommend?—They have not appointed them, because they have not got large facilities and resources.

2302. You say that these shroffs have not resources. But will not the appointment of these shroffs as agents attract business?—That may be, but without the resources and other facilities at each station, this cannot be done.

2303. Therefore, your suggestion is not possible to be adopted as a practical proposition in the immediate future. Is it not?—It can be possible as soon as the method suggested by the Marwadi Chamber in their written evidence is adopted.

2304. But at the moment we need not pursue this idea?—No.

2305. About the local advisory committees do you drop that idea also?—No.

2306. You say that it would be helpful if all the banks have local advisory committees for every branch whereon local shroffs and merchants are invited to serve, and that this will inspire confidence among the local people (*a*) Can you suggest why banks have hitherto not realised this advantage and adopted your proposal of local advisory committees. (*b*) Would you agree that it is not possible to force local advisory committees on banks and that it should be left to the banks to realise the advantages of such a course and adopt your proposal?—Some of the banks have

appointed local advisory committees The Punjab National Bank has done so.

2307. Therefore, you think that these banks find it possible to have the local advisory committees?—Yes.

2308. If the local shroffs or bankers who are associated with the banks are represented on local advisory committees, is there not a risk that these shroffs may advise not giving loans?—That is not the experience. On the contrary it would help the local manager to give advances, because the local people on the advisory committees will have some knowledge about the standing of the borrowers.

2309. *Sir Hugh Cocke*: Do you mean to say that they will be acting on the opinion of these advisory committees or will there be any difference of opinion?—These committees will give them advice and help them in some respect.

2310. *Mr. Manu Subedar*: Is it not true that the Indian banks, when they first opened branches, had no local advisory committees, but later on when they found that the local manager might get some assistance in giving loans, they have done so?—Yes.

2311. *Mr. Chetty*: In the composition of these local advisory committees would you suggest that persons in the locality who themselves are borrowers should be excluded from these committees?—No. Because the local advisory committee is not the final authority. If the business proposition is safe and profitable to the bank, there is no reason why they should not give loans to the members of the advisory committees.

2312. *Mr. Devadhar*: If the advice of the local advisory committee is sound and appeals to the bank, will not the Manager accept it?—Yes, if it is profitable to the bank.

2313. Your idea is that such an advice is always accepted and there is no divergence of views?—Yes.

2314. *Mr. Chetty*: So these indigenous bankers give their advice in the interest of the bank?—Yes.

2315. *Seth Haji Abdoola Haroon*: Do you know what work these advisory committees are doing?—They scrutinise all the loans and it is on their advice that the manager has to accept the advance of money.

2316. In Karachi I know what the advisory committees are doing is that they advise the manager that Mr. A., B or C should be given a certain amount of loan and not the amount applied for, if they think so; the manager then gets the sanction from his head office and grants the loan. Is that the work the advisory committees have to do?—Yes. The manager puts all the proposals before them and then the loans are granted.

2317. *Mr. Manu Subedar*: Is it true that when a branch of the joint stock bank has got an advisory committee, the local people get more confidence?—Yes, we have already mentioned that in our written memorandum.

2318. *Dr. Hyder*: Do you not think that by the appointment of the advisory committees, the business of a particular man will be known to their competitor?—In some respect it is possible, but we cannot help it.

2319. *Sir Purshotamdas Thakurdas*: May I know if the merchants like the idea?—We are not in a position to reply to that question. But

we think the commercial community will be glad to have such committees, as the banks would be getting better advice than if the manager were alone.

2320. *Chairman*: Would you agree that it is not possible to force local advisory committees on banks and that it should be left to the banks to realise the advantages of such a course and adopt your proposal?—We have not suggested that there should be any force used.

2321. You say that if it is intended to develop Indian banking, restrictions should be placed on the borrowing powers of exchange banks and the branch banking activities of the Imperial Bank. Would you kindly tell the committee whether the Imperial Bank, in your opinion, is not an Indian bank and if not, will you tell the committee what your reasons are for thinking so?—We have not suggested in our memorandum that the Imperial Bank is not an Indian bank. But we have suggested that there should be restrictions placed on its branch banking activities. By doing so it will be a help to the shroffs and would prove more beneficial to the trading classes.

2322. There are many places where the indigenous shroffs are not carrying banking business. Would you object to the Imperial Bank opening their branches at such places?—We have said that as we are developing the banking organisation, the *Sarafi* system which would be more economical should first be given an opportunity.

2323. You say the Imperial Bank is against the development of the joint stock bank. My friend, Mr. Devadhar, may say that it is against the development of the co-operative bank. I can quite appreciate your point of view; it is an Indian point of view, but from that point of view there should be no distinction between the Imperial Bank, Indian joint stock bank or the co-operative bank. All you want is the development of banking. Is it your view that the shroffs should be given preference over all these banks?—Taking into consideration the fact that these shroffs are not well developed in banking and also what has been done in this connection in the United States, we say that it is a better service if we strengthen the hands of these shroffs than the Indian banks or the co-operative banks.

2324. *Mr. Devadhar*: Am I to understand that you like to give preference to the indigenous banker rather than to a branch of a joint stock bank or a branch of the Imperial Bank or a branch of the co-operative bank?—I am sorry that without understanding the question of the Chairman I have replied. I do not mean that it should be done in that way. I am very much in favour of the co-operative banks being developed. There is so much field for the banking business in the country that the co-operative banks and the indigenous banks would not suffer.

2325. *Chairman*: Now, in the case of Indian joint stock banks as against the indigenous banker, would you give a certain amount of preference to the indigenous banker?—Yes.

2326. I thought you said that idea was based on the principle of the Federal Reserve Bank system in the United States. Is it not?—The conditions that now prevail in India are such that even though the preference is given to the indigenous bankers, there will be a vast field for the other banks.

2327. The whole question is how to develop banking facilities in the country. If at a place the indigenous banker is not doing banking business and the Imperial Bank wants to open its branch, would you object to it?—I say if our trade is to be developed, there may be these shroffs. But where there are no such shroffs, other banks should open their branches.

2328. Therefore, am I correct in saying that you do not want to give particular preference to any type of indigenous banker without considering the local conditions? I will quote the instance of Bhagalpur. If it is found that the indigenous banker will submit himself to certain regulations and if he can develop the banking business, naturally the concession should be given to him. But if there is no such person and if we have a branch of the other banks, would you object to it?—No.

2329. *Sir Purshotamdas Thakurdas*: You do not suggest that the Imperial Bank or any other bank should be prevented from opening branches. What you say is that where there are no shroffs, they should be allowed to open branches. Is it not?—Yes.

2330. *Chairman*: In your memorandum you have said that the activities of the Imperial Bank in the opening of branches should be severely curtailed. What do you mean by that?—We mean that their activities should be stopped temporarily.

2331. *Mr. Chetty*: You said that the encouragement to the shroff in the banking system would prove to be more economical. What is your idea?—If a bank advances a loan, its rate of interest will naturally be higher taking into consideration the cost of management, whereas the rate charged by the indigenous banker will be cheaper.

2332. You are speaking from the indigenous banker's point of view. I am looking at the question from the point of view of industries and trade. What I am trying to find out is this. Do you agree that the primary concern in opening the branches must be to provide facilities for industry and trade?—Yes.

2333. If there are no shroffs, how are you going to provide facilities for the industries? There should be some branches of the banks?—What I say is that it is necessary to develop the *Sarafi* system. In the end it would prove cheaper.

2334. Indian industries should have funds and how are you going to advance them moneys without sufficient resources?—If the system suggested by the Marwadi Chamber of Commerce is adopted, they will be able to take resources from the Reserve Bank and then give loans to the borrowers.

2335. *Mr. Manu Subedar*: You say that the indigenous banker at present provides facilities with his own resources. But if his resources are improved by linking him up with the Reserve Bank, do you think he would be able to give facilities of loans at a lower rate?—Yes.

2336. Do you think that this indigenous banker can assist industry and trade by giving loans much better than the other banks?—We have said it plainly in our written evidence.

2337. You said in answer to a question that the indigenous banker would be able to give loans at a lower rate. If he does that way, do you think that a borrower—I am speaking from the point of view of the

public—will rather go to the indigenous banker for a loan than to the branch of the Imperial Bank?—He will go to the indigenous banker.

2338. *Chairman*: We have before us the evidence of a gentleman who is carrying on the business of the indigenous banker at a mofussil place in Bihar. He tells us that so far as he is concerned, he has got adequate resources. But his difficulty is that he cannot employ those additional resources in the business. When he was asked how that was, he told us that the profession of giving loans is losing daily. Even though they are more lenient in the realisation of the loans than the joint stock banks they find great difficulty in employing their resources. That will convince my friend, Mr. Manu Subedar, that even when there are resources available, there will be no improvement in banking. Therefore, I say that we cannot have a general arrangement or a general regulation. We have to take into consideration the circumstances of the locality or the place and then to decide. That is exactly my point.

2339. *Mr. Lamond*: You say that Indian joint stock banks will give better facilities than the Imperial Bank. May I know in what direction?—In many directions they are offering better facilities. From my experience of the jute trade in Bengal I find they are getting better facilities from the joint stock banks than the Imperial Bank in the movement of crops from mofussil centres to the port, with regard to the baling business and by way of obtaining clean credit.

2340. *Dr. Hyder*: Taking things as they are, is there any difference in the rate at which money is advanced direct by the indigenous banker to the borrower and the rate at which a joint stock bank advances to the borrower, given in both cases that the security is the same?—Everything being equal, the indigenous bankers sometimes lend at cheaper rates than the joint stock banks.

2341. Is that your experience in Bengal?—Yes.

2342. *Sir Hugh Cocke*: Arising out of these questions, would you subscribe to the view that the healthy competition between indigenous bankers and other banks whether it be Imperial, joint stock or others, is beneficial to the commercial community and the public at large?—Yes, if the indigenous banker is given his proper place in the banking system of the country and if proper facilities were given him, then we may say that the competition is healthy.

2343. *Mr. Devadhar*: Knowing the rates of interest that are at present prevailing in some parts of Bihar and Orissa and Bengal, don't you think that a farmer in the rural areas will be able to get better finance at cheaper rates from his own co-operative society than he would be able to get it from the indigenous banker of the locality?—We are not referring to the agriculturist at present.

2344. I am looking at it from the point of view of the agriculturist. What is your opinion?

2345. *Chairman*: The indigenous banker for whom we are talking of giving some concessions in return for some restrictions are not the people who are dealing in rural areas or are financing the farmers. Judging from the provincial reports, almost every report says that it is only the petty money-lender who does not accept deposits that is dealing in the rural areas with the farmers direct. There, Mr. Devadhar, these gentlemen

will not be able to answer your question. The Bengal Report says that the part played by the indigenous banker in the financing of agriculture is insignificant.

2346. *Seth Haji Abdoola Haroon*: You say that banks should be encouraged to help the local shroffs to act as agents. You know at present the shroffs are not only doing banking business but other business as well?—We don't press our statement. We now support the proposals of the Marwadi Chamber of Commerce in regard to this matter.

2347. *Dr. Hyder*: If you say that the indigenous banker is able to lend at cheaper rates than the joint stock banks, how is it he is not able to oust the latter or other money-lending institutions, and how is it you ask for special protection for these people?—We have made the point perfectly clear in our memorandum. Formerly these indigenous bankers had very large resources at their command, but now their resources have dwindled down owing to various reasons. If they are provided with more facilities, then they will be able to lend at cheaper rates.

2348. Therefore, you say that they should be provided with more resources. Do you not think that by so doing you will be really handicapping the competitor of the indigenous banker?—But then, the resources of the joint stock banks are not quite sufficient to meet the needs of the country. That is the difficulty.

2349. *Mr. Chetty*: Does the indigenous banker in Bengal, whom you are thinking of, manage to attract deposits from the public at cheaper rates than the Imperial or the joint stock banks?—It all depends on the standing and position of these indigenous bankers.

2350. So, you say that they were formerly able to attract deposits at cheaper rates?—Yes, but now such firms are fast disappearing.

2351. *Mr. Rushforth*: I gather from the answer that one of the reasons why the Chamber is in favour of giving facilities to the indigenous banker is that the latter will be able to derive some increased facilities when the Reserve Bank is formed, of which he will become a member. Therefore, is there any reason to believe that similar facilities will not be afforded to the joint stock banks?—We have already said that the indigenous banker offers the cheapest facility and therefore he should be helped.

2352. *Dr. Hyder*: Taking things as they are, don't you find that sometimes the indigenous banker borrows at the rate of 6 or 7 per cent. from the joint stock banks and then lends it himself at 9 to 12 per cent?—Yes, because the indigenous banker takes the risk in lending out whilst the banks do not. That is the difference.

2353. You remember my point was "provided the security was the same"?—But then what we say is that because the indigenous banker takes the risk which other joint stock banks do not, the difference in the rate that they earn is quite justifiable.

2354. *Mr. Manu Subedar*: Do you imply that after the expansion of joint stock banking in the country there will still be some work left for the indigenous banker who could operate to public advantage?—That is our opinion. The real point is that the indigenous banker must stand or fall by the amount of public confidence evinced in them.

2355. *Chairman*: You have already referred to the meagre supply of credit facilities to Indian merchants engaged in foreign trade. Will not

restrictions on the Exchange banks' activities reduce still further the available facilities to Indian merchants?—We want someone else to take their place. We want the Imperial Bank of India and other Indian joint stock banks to take up the exchange business.

2356. But are there any restrictions placed upon joint stock banks at present from doing exchange business? As a matter of fact you know that the Central Bank of India is doing the work now?—Only to a very small extent.

2357. How would you encourage them to do so?—We have explained the point thoroughly in our memorandum. There will be no lack of facilities if Indian banks took to the business of external trade.

2358. If the activities of the Imperial Bank are severely controlled as proposed by you, do you think that joint stock banks would be able to give the same facilities to the public as the Imperial Bank has done? I think you have already answered my point by saying that the public must submit themselves to a temporary inconvenience. Is that not so?—That too will not be necessary when the Reserve Bank is brought into existence and if shroffs are taken in as members.

2359. What guarantee is there that your indigenous banker having secured a monopoly will not try in his own interest to get as much out of the people to whom he lends money as he can?—We suggest that if they could borrow from the Reserve Bank at a specific rate, it could be laid down that their lending rate should range between 2 or 3 per cent. above that rate.

2360. Even so it may happen that a joint stock bank which gets its finances from the Reserve Bank might be able to lend at a cheaper rate?—In which case the borrower can go to the joint stock bank. As we have already said that under such circumstances there will be no objection to healthy competition between the joint stock banks and the indigenous bankers.

2361. But then you want to impose restrictions?—The object of the restrictions is that the indigenous banker must be able to get his resources from the Reserve Bank and for this if he is made a member of the Reserve Bank, that will do.

2362. You have already given various answers to various members which may not coincide with what you are now saying. Therefore, I will not pursue the point further.

2363. *Sir Purshotamdas Thakurdas*: Let me make the position clear. All that you said is that you don't want the Imperial Bank to open more branches because of your idea that these branches may not be paying?—Yes.

2364. Though you include in your definition of Indian banks, the Imperial Bank also, still you make a difference between the Indian joint stock banks and the Imperial Bank, because the latter is supported by Government. Is that not your point?—Yes, because the Imperial Bank has got certain advantages over all other banks.

2365. *Chairman (to Sir Purshotamdas Thakurdas)*:—When you read his answers, you will find that he has not been consistent in his answers.

2366. *Witness*: I think the confusion arose when you (Chairman) mixed up the joint stock banks with the Imperial Bank.

2367. *Chairman*: I first put the question to you whether you included the Imperial Bank in the expression Indian banks and you said 'you'?—We agree we said so but we have made a clear distinction between the Indian joint stock banks and the Imperial Bank of India in our memorandum.

2368. *Mr. Chetty*: You are talking of the Imperial Bank on the one side and the joint stock banks on the other and you never talk about them together on any one point. Is that what you mean?—Yes.

2369. *Sir Purshotamdas Thakurdas*: Do you suggest any preference or advantage for the indigenous banker?—No, none at all.

2370. All that you suggest by endorsing Mr. Manu Subedar's suggestion is that you want them to occupy the position which they occupied some years ago?—Yes.

2371. *Chairman*: Now you have considerably modified your views.

2372. *Sir Purshotamdas Thakurdas*:—I felt there was some misapprehension with regard to the questions put to the witness.

2373. *Chairman*: There are complaints that the Imperial Bank has upset the working of indigenous banks by lowering rates in districts in which they have opened branches. There are also complaints on the other hand that rates in the districts are still too high. What are your views regarding these complaints from the agriculturist's and trader's point of view?—We do not deny that the Imperial Bank has been able to lower the rate in many places, but we have mainly based our suggestion from a broader aspect.

2374. You say that the success of Indian banks will mainly depend on the Indian public which should realise its duty to support Indian banks. By their large deposits with the foreign exchange banks, the public have shown their confidence in those institutions. Do you think by legislation restricting the borrowing powers of these foreign banks, you can transfer the confidence of the public from one institution to another?—We have never said that public have shown their confidence with the Exchange banks by depositing their funds with them, but we have said that owing to their premier position which they occupy in the foreign exchange business of the country they are able to attract deposits.

2375. The Bengal Committee in their Report say: "The depositors are attracted to other institutions not merely because their rates of interest on deposits are higher, for in several cases they are lower, but because of the sense of security engendered by publicity and businesslike methods of such institutions". Well, we find conclusions like that in almost all Provincial Banking Committee's reports. What are your views on the point?—We have already said in our memorandum the importance of the external trade of the country and the growth of that trade among Indian merchants and Indian banks could only be possible if we can by some means oust the Exchange banks from their business in this country and this could only be done by putting some restrictions on their deposits.

2376. Do you think that deposits which now go into the hands of the Exchange banks will go into the hands of the joint stock banks and indigenous bankers?—Yes, we think so.

2377. *Chairman*: It has been pointed out by one of the Provincial Committees that the ideal to be aimed at is the distribution of the total amount of savings available for investment among the competing institutions in India in due proportion having regard to their national importance, that it is out of the question to reach this ideal by any sort of control and that a banking council should be set up which should collect and keep up to date information on the demand for capital and bring to public notice and ventilate by public criticism any marked disparities in the access of different investment institutions to the capital available. Have you anything to say on this suggestion?—I saw this suggestion only yesterday and I have not had time to study the reports you refer to, therefore I am not in a position to express an opinion.

2378. *Mr. Manu Subedar*: You suggest that the facilities which the Exchange banks have got for receiving deposits should be restricted. If you did so, you would be withdrawing a large amount of loanable capital which is at present financing foreign trade. You would be putting that in the Indian banks which could then finance internal trade. You think that would lower the rates of interest for the financing of internal trade; but it might raise the rates of interest for financing foreign trade. Do you consider that position satisfactory?

Chairman (to Mr. Manu Subedar): May I put to you that the various proposals should be taken as forming part of one single scheme and that it is part of that scheme that adequate facilities should be given to Indian banks—in which I include the Imperial Bank—to carry on the foreign trade of the country; and that I think is a sufficient answer to your question.—No, Sir.

Witness: We have suggested that the restrictions on the Imperial Bank regarding exchange business should be removed at once because, as we have shown, we regard the import and export trade to be of the greatest importance to the country.

2379. Do you think that taking the banking interests of the country as a whole, the restrictions which you suggest on the Exchange banks would be justified?—Yes.

2380. *Dr. Hyder*: What do you mean by 'restriction'? Is it prohibition; or do you mean that they should be put under any taxation disability?—They should not be allowed to receive any deposits at all.

2381. *Chairman*: You refer to a number of banking communities, members of which have a natural instinct for banking and suggest that scholarships should be offered to suitable youngmen to study modern banking methods. Do you refer to youngmen of these communities?—We refer to youngmen of all communities.

2382. Would these scholarships be tenable in India for study of banking methods in banking institutions in India or would they be tenable in countries outside India also?—It would be much cheaper to give them facilities in India. But if funds are available, they should be given scholarships and sent abroad to study banking. Scholarships should only be given to youngmen who show some special aptitude for banking.

2383. Do you think that the indigenous banks will be able to employ these people on adequate remuneration.—Yes. But the indigenous bankers will not go out of their own communities, if they can get good men within their own communities.

2384. Therefore, is it your view that it will remain a sort of close preserve?—No; if the business of an indigenous banker is developed to such an extent that it would be profitable for him to employ men of other communities, then certainly he will employ them.

2385. You say that the Imperial Bank has failed in its duty to offer facilities in times of emergency to other joint stock banks in India. Can you give any instances where the Imperial Bank has failed in its duty?—If you will read our memorandum, we have said, "in the best possible way".

2386. Can you give concrete instances where the Imperial Bank has actually failed in its duty to offer facilities in the best possible way?—There is the instance of the People's Bank.

2387. At the time of the failure of the People's Bank, the Imperial Bank as it exists to-day did not exist. Therefore you cannot give the Committee any specific instances of banks which were not helped by the Imperial Bank in times of emergency?—We can give examples of other countries.

2388. Can you give an example where the Imperial Bank has failed to give the facilities which you contemplate "in the best possible way"?—There have been no such cases. But in other countries, banks at such times can count on the Central Banking authority for help. Since in our country the Imperial Bank is not the bankers' bank, other banks cannot count on the help.

2389. What happened in the case of the Alliance Bank?—The Imperial Bank agreed to advance eight annas to the rupee to the creditors.

2390. But it did then come to the assistance of the depositors of that bank.—The impression in the country has been that since the Alliance Bank was an English bank, the Imperial Bank came to its help. We have given the case of the People's Bank also.

2391. But you must not forget that we have in our midst a gentleman (Sir Purshotamdas Thakurdas) who knows all about the Imperial Bank since its formation in 1921.

2392. *Mr. Chetty*: Apart from the fact that there have been no instances since the institution of the Imperial Bank, in which the Imperial Bank refused to come to the assistance of indigenous banks and ordinary joint stock banks, you think that they do not rely upon the Imperial Bank for help?—They do not count on the Imperial Bank for assistance.

Mr. Manu Subedar: There is no legal or statutory obligation at present.

Mr. Lamond: But the Imperial Bank not only assisted the Alliance Bank of Simla but also helped the Bengal National Bank.

2393. *Mr. Manu Subedar*: The Imperial Bank, you say, is not the bankers' bank; the Imperial Bank are the Government's bankers; they are regulating the market by fixing the bank rate, but the control of the currency is not in their hands; it is in the hands of the Government; the Imperial Bank themselves, when they need some additional facilities, borrow from Government against bills and the Government do not lend them except at the Bank rate. Do you think that is a good arrangement? If the Imperial Bank themselves cannot borrow at any rate other than the Bank rate, how can they help other institutions in times of emergency. Do you think that unless the Reserve Bank is established and the control of currency and credit is combined, additional facilities should be given

to the Imperial Bank to borrow from Government from the Currency reserve at a lower rate?—That facility should be obtainable for all member banks.

2394. As we are at present located, the Imperial Bank has to look to its own cash; they must feed themselves first; they are also a commercial bank; the question of facilities to other banks comes after. How can they give facilities if the Government do not lend them money at cheaper rates?—We think that the entire system is wrong.

2395. The assistance to other banks can be in the form of loans against Government securities or the rediscounting of their bills. The Imperial Bank, since it became the Imperial Bank, has been as a rule, giving such loans against Government securities. Do you know of any other banks which lend out like the Imperial Bank?—No we do not know.

2396. Do you think that the Imperial Bank can rediscount the bills of other banks except at the bank rate?—No.

2397. Is that a very unsatisfactory system you think?—Yes.

2398. *Chairman*: In your memorandum you say, "No amount of help or measures can lead to any growth of banking if the Government of the country is a constant borrower of money at a high rate of interest". I think you do not stress the fact of Government borrowing constantly so much as the fact of the high rates of interest?—We do not stress the fact that the Government is a borrower of money.

2399. You say that the attraction of large deposits by Exchange banks is due to the huge financial resources and to the control they exercise over the external trade of the country. Would you kindly explain how the exercise of control over the external trade of the country has the effect suggested by you?—If we want to engage in the import and export trade of the country, we have to send bank references. But if we deal through Exchange banks, we do not have to send such references. Therefore we have to keep accounts with them.

2400. You say that the deposits of Exchange banks are used mainly to finance the external trade and not Indian trade and commerce. Do you mean by Indian trade and commerce internal trade of India; if so, do you not consider the former as essential as the latter?—Because we consider both internal and external trade equally essential, we suggest that there should be restrictions on Exchange banks so that Indians may be allowed to take their proper place.

2401. Here the question is not one of restriction on internal trade.—That is why we want Indians to take their proper share in the trade of the country.

2402. While you complain that exchange banks are not utilising their deposits in financing internal trade, complaints have been received from other witnesses that the Exchange banks are already entering into competition with the Indian joint stock banks in financing internal trade to the great disadvantage of the latter. Have you anything to say in regard to this?—Up to a few years back they were confining their activities to external trade only.

2403. Up to how many years back? five years?—Say, up to ten years, they were confining their operations to ports; since then they have been taking interest in the internal trade of the country.

2404. And Indian banks are not doing so in regard to external trade?—They are only beginning to do it.

2405. *Mr. Lamond*: Do you know that the exchange banks opened their branches in the up-country over 10 years ago?—I do not know.

2406. *Mr. Buckley*: Are they doing more business to-day than ten years ago?—I do not know. Perhaps this Committee knows this better.

2407. You now find that Exchange banks are trying to play an important part in the internal trade of the country.—We want Indian banks to do that.

2408. *Dr. Hyder*: What do you mean by "up to the ports"? Do you mean that they are carrying on banking business as well as regulating the movement of crops, etc.? Are they also taking things from the ports to the interior which they did not do before?—No.

2409. *Sir Purshotamdas Thakurdas*: Have you in mind certain Japanese firms or other firms?—Both.

2410. What kinds of trade are the Japanese banks assisting?—Jute for instance.

2411. *Mr. Buckley*: Can you name a branch of any of these Japanese banks in the mofussil of India?—The Japanese exporters of cotton purchase in the mofussil and can always get money from their banks at the ports, while we merchants cannot do that.

2412. I thought you said that Exchange banks were extending their branches up-country?—They have been extending their activities up-country.

2413. Can you give us an idea of how many branches they have opened? —I do not know of any branches opened up-country. I only said that they were trying to finance the internal trade.

2414. Do you not think that they have opened several branches for the express purpose of enabling the Indian merchants up-country to do direct business with foreign countries and thus to save themselves the middleman's charges at the ports?—But the Indian merchants now wish to deal direct with foreign countries without the help of the European middlemen.

2415. If I told you that some of the branches have been opened at the express wish of the Indian merchants to enable them to import their piecegoods, are you in a position to deny that?—We have said that they do give help to the piecegoods merchants. We have also said that the part which the Indian merchants play in the import and export trade of India is very insignificant.

2416. It is not so insignificant in places like Amritsar and Cawnpore and Delhi.—But, Sir, do they export direct or do they deal through Bombay and Calcutta? Our information is that very few of these merchants export direct to other countries.

2417. *Mr. Buckley*: My point is that the existing branches of the Exchange banks were opened many years ago for the express purpose of enabling Indian merchants to do import and export business with foreign countries direct.

2418. *Mr. Manu Subedar*: When you said that Exchange banks are coming into the field of internal trade what is the internal trade that you refer to? Goods are moved from the producing centres to the ports, partly to be used at the ports and partly to be exported. Is that the internal

trade which you say that the Exchange banks are engaged in?—The movement of goods from the producing centres to the ports is internal trade.

2419. Is it your grievance that the Exchange banks are now financing the movement of crops from the producing centres to the ports?—Yes.

2420. And *vice versa* also, from the ports to the interior?—Yes.

2421. You say that that should be the field of finance for the indigenous banks?—Yes.

2422. *Chairman*: I asked you whether by Indian trade and commerce you were referring to both import and export trade. You said, yes. Now you go on to say that the Exchange banks are largely interfering in this business and that they have been doing that for ten or twenty years.—There is only a tendency on their part to interfere in that trade also.

2423. You say that no foreign bank has been successful in obtaining foot-hold in Australia. So far as I understand there are 18 commercial banks in Australia of which three including the Bank of New Zealand are foreign banks with branches in Australia, three have head offices in London and only the remaining 12 are essentially Australian institutions with head offices in Australia and branches in London. Are you in a position to contradict my information?—I have been to Australia and I have seen these things for myself. I am correct in saying that the foreign banks have not been successful in obtaining any hold there; they are only doing agency business.

2424. Then you are making a distinction between banks domiciled outside the Empire and banks domiciled in England. I am referring particularly to banks domiciled in England. There are three banks which have head offices in London and it appears that in the case of these three banks there is no discrimination made in Australia. Are you in a position to contradict my information?—Contradict in what way?

2425. That there are such banks.—Australia and England are so closely connected that practically the whole of their business is with England; therefore these banks may be playing a certain part in the trade of Australia. But my information is that Australian banks are doing the major portion—nearly 90 per cent.—of the business of Australia.

2426. *Chairman*: You refer to restrictions in Canada against non-national banks carrying on any business there. Can you tell the Committee whether the provision for a majority of the directors of banks in Canada being natural born or naturalized subjects of His Majesty and domiciled in Canada may not be due to the note issue privileges enjoyed by these banks?—The position in Canada is in marked contrast with the position in India. In the former country Government not only give protection to indigenous banks by providing certain restrictions, but they give them note-issue powers, while in the case of India we find that not only have we no protection against foreign banks, but the banks have no note-issue powers.

2427. It does not follow, because the refusal to grant note-issuing powers may have arisen from quite a different consideration. I have already read out to you the finding of the Provincial Banking Enquiry Committee of the province which your Chamber represent: there they have said that the real trouble is want of confidence among the public in indigenous bankers. If the public have no confidence in a particular type of banks—and I include indigenous bankers in this expression—naturally Government might

consider it undesirable or undefendable before the public to grant that particular organization free powers to issue notes?—What few banks we have in the country have been able to make a certain amount of deposits and looking to the record we cannot say that the Indian public have no confidence in the banks. But if powerful rivals are working and they have some special monopoly of trade, it follows that they can also attract deposits. As you said in the case of Canada, Government have given not only protection but certain facilities, while in the case of India we have no protection and no facilities.

2428 The note-issuing facilities stand on a different footing. Such facilities cannot possibly be given indiscriminately and if it is done, it may be a positive danger to the community at large?—We do not advocate that indiscriminate powers should be given. I wanted to bring out the contrast between the two countries.

2429. Do you refer to Indian joint stock banks or to indigenous banks?—I am talking of the whole banking system of the country.

2430. If so, you would immediately get into troubled waters, because the indigenous banker so far has not produced or even maintained proper accounts—We are not discussing the suggestion about note-issue.

2431. You say you would restrict the right of dealing with the Reserve Bank to the Head Office of the Industrial Bank. Can you give the Committee any idea of the nature of dealings between the Reserve Bank and the Industrial Bank?—An industrial bank may make advances for floating capital to an industrial concern and it may make such advances against bills; at times if it requires additional capital, it may draw such capital from the Reserve Bank on the security of those bills.

2432. Firstly, it is advance on bills and secondly, advances on any other account?—The industrial bank will also make advances of fixed capital of a long-term nature just as Government at present are issuing currency against *ad hoc* securities. It is only a promissory note backed by another promissory note. If the Reserve Bank is allowed to issue currency to a certain extent against the advances made by the Industrial Bank of a long-term nature, that would give additional facilities to the industries.

2433. Let me understand your ideas clearly: Your first class of advance is clear, *i.e.*, the Reserve Bank will make advances on the security of bills, that is by rediscounting bills?—Yes.

2434. Secondly, you say that the Reserve Bank will provide additional currency on the basis of a promissory note deposited by the Industrial Bank with the Reserve Bank?—No, they have the security of the concern to which the Industrial Bank has made advances. The Industrial Bank will be making advances on security and that security may be pledged with the Reserve Bank and additional currency drawn upon.

2435. Therefore they will be able to get additional credit from the Reserve Bank after depositing with them the security to which you refer?—Yes.

2436. *Dr. Hyder*: Your idea is that the Reserve Bank should really become an Industrial Bank also?—No.

2437. If you have long-term securities?—Only a certain percentage. I think the security of the industrial concern is better than the *ad hoc* security.

2438. In so far as the nature of the security is long-term and the advance is given on this long-term security, your Reserve Bank becomes a commercial bank, an Apex bank *plus* an Industrial bank?—No, but if the Industrial Bank wants additional facilities at any time for some reason, it may at such times draw currency from the Reserve Bank.

2439. *Chairman*: Can you tell me of any other country in the world where additional currency would be created in this manner?—The Reserve Bank system of America.

2440. Under the Federal Reserve system of America, they issue additional currency on the strength of securities you refer to?—On the strength of trade bills.

2441. You were not talking of trade bills, but of certain securities possessed by the Industrial Bank—There is the fiduciary issue, but so far as we are aware, we do not know of banks where additional currency is issued against the security of industrial concerns.

2442. *Mr. Manu Subedar*: You said that Industrial Banks should get rediscounting facilities from the Reserve Bank?—Yes.

2443. By re-discounting you mean re-discounting of bills drawn on the Industrial bank by their constituents and accepted by the Industrial bank—Yes.

2444. For what maturity would those bills be?—They may be for three or six months.

2445. With regard to long-term facility, you suggest that the Industrial Bank should go to the Reserve Bank and similarly give documents on which there are two signatures, their clients and themselves and re-discount the promissory notes. Does it not come to the same thing? By additional currency all you imply is that the Reserve Bank should give advances?—That is so.

2446. If the Industrial bank's funds were short, they could go to the Reserve Bank and draw on them against the security, first of the bills and secondly of the promissory notes, the latter being for a long period—We have said that the Industrial Bank would make two advances, those of a temporary nature and long-term nature; as India is an industrially backward country, if it is necessary to borrow on long-term, then also there should be no difficulty.

2447. *Chairman*: Throughout your answers when you were using the word 'currency' I suggested you meant 'credit' and I think you do mean that. When you said 'currency' and referred to *ad hoc* securities, you really meant credit. If you leave it at that, I do not think any other question is required—Yes.

2448. *Mr. Manu Subedar*: For what period do you want advances?—It will only be in exceptional cases that facilities would be required against long-term advances.

2449. Your idea is that even in those exceptional cases they should have somewhere to go—Yes.

Chairman: You say that no facilities are available for financing of industries in the initial stages. It has been suggested by one Chamber that capital for starting an industry must be found by the promoters and that the assistance of banks should be sought only for later extensions and for floating expenses. What are your views in regard to this suggestion?—We have stated in our memorandum that in the initial stages

help is sometimes necessary. Several times people make an estimate of the cost of the industry, but before the industry is complete they find they require a certain amount of money to complete the concern and at such times it is very difficult to get help.

2450. I take it that as commercial banks do not lend on long-term securities, it is against their general practice to grant an advance in a case of this sort.—Yes.

2451. And you think that the industrial bank should be started to afford facilities of this sort?—Yes.

2452. You say that there are certain industries which require finance for selling goods on credit but do not get the same, and they should be enabled to raise money on the security of bills on their customers. Does the practice of drawing bills on customers obtain at present and do industries find it difficult to discount such bills?—The practice exists to a certain extent and it requires to be encouraged. If people can easily get financial facilities on the security of these bills, the custom would develop.

2453. You say that industrial concerns managed by Indian firms find it very difficult to place debenture loans on the market. Will you tell the Committee whether European firms have been successful in placing such loans in the market?—We cannot say.

2454. You say that there is no organisation in India which could guide the investors in the matter of debenture loans and that if an industrial bank is established, debenture loans issued by them will be popular with the investing public owing to the confidence and the security created by the association of the loan with a first class industrial bank. Of course you want the Industrial Bank to underwrite the loan?—In some cases it may underwrite, and in some it may directly sell in the market.

2455. That is, you really want India to adopt the Gross-banken system of Germany?—Yes, in this case.

2456. I understand that in Germany a Committee of Admission consisting of able bankers and merchants is appointed by Government to scrutinise all new securities introduced into the market and to express its opinion as to the desirability of the introduction and quotation of the security concerned and that a Syndicate of banks and private firms take over loans from the industrial undertakings in agreed proportion with a view to issuing the same themselves. This is said to create an atmosphere of confidence and trust in industrial stock. Do you think a similar procedure will create the necessary confidence in the Indian investing public?—No syndicate of banks exists in India and it is therefore that we have suggested that the Industrial Bank should be brought into existence. If trade and industries develop to the extent we desire, such banks may come into existence and the suggestion may then be considered.

2457. I want to know whether you desire something of the sort established in India as part of your scheme of Industrial Bank—We have stated that the Industrial Bank will be able to create confidence in the investors and if the debentures are placed through the Industrial Bank the investors will have more confidence in the concern.

2458. We were told the other day that shareholders' associations have been formed in Bombay, Calcutta, and Madras and that they are engaged in propaganda work; will not this propaganda work itself help the market for various securities, including debentures?—Propaganda alone, I do

not think, is sufficient. So far as the Calcutta Shareholders' Association is concerned, its activities are confined to finding out any unfair treatment meted out to the shareholders by the Managing Agents.

2459. They are like Labour Unions!

2460. *Mr. Manu Subedar*: What is the unpopularity of debentures in India due to in your opinion?—We have not referred to unpopularity, we say that there is no organization to guide the investor.

2461. Therefore you suggest the intermediary of industrial banks?—Yes.

2462. If industrial banks are established, you think debenture issues will be very popular?—We have said that they are a very good form of investment and capital would be forthcoming.

2463. Are you aware that there is a stamp duty on the issue of debentures as well as on their transfer?—If there is anything to hamper the growth of the debenture system, that should be removed.

2464. The duty is 7½ per thousand of issue and I think 3¾ on the transfer per thousand. There is not a duty on shares. Don't you think that such a duty would interfere with the popularity of debentures?—It would certainly; those who take debentures will certainly take into consideration the expenses they would have to incur.

2465. What are your suggestions with regard to the stamp duty on debentures?—The duty should be lowered considerably if the debentures are to be made popular.

2466. *Mr. Shanmukham Chetty*: If an industrial bank takes up the debentures of an industrial concern or helps it in any way, would you think it advisable to insist that the industrial concern should set aside a sinking fund to meet the obligations arising out of the debentures?—That is a question of detail which can be gone into by a sub-committee.

2467. You do not subscribe to the dictum that in every case a block account should be found by share capital?—We have mentioned the difficulties in many cases and we have cited instances where people had to part with their concerns because they hadn't the capital required to complete the concern.

2468. Therefore it is advantageous to an industry to have part of its block account found by debentures and loans?—It is a great advantage.

2469. Would you fix a maximum limit, say 25 or 30 per cent.?—Debentures would be issued only to the extent required; they won't be issued in excess of requirements.

2470. You would say that not more than a certain percentage of the block account should be raised in the form of debentures and loans?—Yes.

2471. Even in the cases of companies which have been able to find the money required for the block account by share capital, when it comes to the actual working of the concern, they have found it very difficult to find the capital under the existing system. For instance, the Imperial Bank of India generally advance 20 to 25 per cent. on the security of their floating stock. So even in the initial stage, an industrial concern has to raise a considerable amount of money to meet the difference between the value of the stock and the amount advanced by the Imperial Bank and they are at a disadvantage under the present system. An industrial bank would be of great help to meet such difference?—That is so.

2472. *Chairman*: Mr. Bagaria's Chamber apparently advocate the establishment in India of the Grossbanken system of Germany under which it is the industrial bank which will hold any floating capital and which will practically control and run the industry. The industrial concern will be affiliated to the Bank and that being so, the details referred to by Mr. Chetty have not been dealt with.

2473. You say that banks in India are not prepared to trust the merchants to the same extent as they do in other countries. Would you explain to the Committee what in your opinion are the causes for this mistrust?—Regarding indigenous banks we have said that their resources are not sufficient. In the case of Exchange banks, they do not grant any facilities to Indian merchants.

2474. Am I right in saying that, other things being equal, there is not the same amount of trust displayed in India as is displayed in other countries? I am quite prepared to take your statement at its worth in regard to the Exchange Banks when you say that they are not interested in the matter of helping Indians, but in regard to the other banks, what is this mistrust due to?—There are very few indigenous banks who have begun to trust the merchants to the same extent they should do. Their position is not secure, they have no Central Bank to depend upon and they have not got those resources that are necessary for trusting the merchants.

2475. Would I be correct in a matter of this sort in attaching greater importance to the views of the authorities of one of the Indian joint stock banks than to the views of your Association?—I have stated the view of the trading community of Calcutta. It is a fact that the merchants do not get facilities to the same extent they get in other countries and we have cited instances of that.

2476. *Mr. Manu Subedar*: When you said that banks do not trust merchants, you imply that banks do not trust merchants to the full extent to which merchants expect facilities and that they put low limits for the advances to be made to individual merchants?—In India it is only possible to borrow money or get financial facilities on securities worth considerably more than the amount of facility required, while in other countries you get better facilities on personal security. For example, if we ship jute goods to Buenos Ayres, Australia and other places, the merchant there draws on three months' sight, gets delivery of the goods, converts them into manufactured goods, sells them and gets the proceeds and then pays the bankers. But here if we are exporting from the ports to the interior, we have to find our own capital.

2477. You mean the policy of the banks is unduly restrictive and conservative?—Yes.

2478. *Mr. Buckley*: That is a matter of opinion?—It is a fact.

2479. It is a question of credit?—There is no reason why the Indian merchant should be particularly unreliable when banks in other countries trust their merchants.

2480. You referred to Buenos Ayres. Don't you think that the importer at that place gets his goods under a trust receipt? He gets the goods in exactly the same way as the importer in this country gets his goods under a trust receipt—we will come to that later.

2481. You suggested just now that the merchant in Buenos Ayres gets an absolutely clean credit from his banker. There is nothing in return

until he manufactures goods and pays the banker. He gets the imported articles on a trust receipt and I put it to you whether the same facilities are not being granted by banks in this country?—No.

2482. *Chairman*: It has been pointed out by one prominent banker that banks in India have no source of information to determine the credit of the merchants except bazar reports and that the position might be considerably improved if merchants drew up balance-sheets showing their resources and their financial standing. Will you tell the committee your views on this suggestion?—There is a certain amount of prejudice against submitting balance-sheets and the merchants think it derogatory to their position. We have suggested elsewhere, and also the Marwadi Chamber has suggested, that the merchants should be allowed to become members of the Reserve Bank and they would submit the balance-sheets. Once it is put into practice that prejudice will disappear and after a few years the merchants will be able to comply with the request of submitting their balance-sheets.

2483. You say what is required is a more liberal policy. Can you explain what you mean by a more liberal policy?—We have made it clear in our answer that the merchants are getting inadequate facilities in respect of loans. They have to furnish securities to a large extent.

2484. If the merchants in India are unwilling to draw up a balance-sheet showing their resources and the financial standing and show it to the bank, how can they expect the bank to adopt a liberal policy?—For example, both in Scotland and Canada the arrangements are made that each man who has to do business with a bank has to keep that bank fully informed about the financial position, by supplying the bank with a regular balance-sheet and accounts. So long as the merchants in India have not adopted that practice, how can the system of the grant of loans be improved?—We have said that the submission of balance-sheets will be developed gradually. Even under the present system the bank has to face bad debts.

2485. There is no question of bad debts. My point is about adopting a more liberal policy.—It happens that credit facilities are given to the merchants in other countries to the extent that are available, but in India they are not available to merchants, though full reports regarding their financial position are supplied to them.

2486. Will you satisfy us by giving concrete cases of that type?—I do not think we can disclose the names here without the permission of the parties. But I can say that our Chamber has realised the responsibility in making such a statement and they have made it on full facts.

2487. They have said simply that the banks should adopt a more liberal policy. They do not say that a particular gentleman had supplied full particulars about his financial position to a particular bank and had wanted more liberal treatment and that treatment was refused to him. They do not make such a suggestion in the printed memorandum. You mentioned that in reply to my question. Therefore, I wanted to know whether you had any concrete cases to support the statement which you now make. Can you give us the names?—We cannot disclose the names without the consent of the parties.

2488. *Mr. Chetty*: Is it not a fact that even in cases like joint stock companies, although the balance-sheets checked by auditors are available, banks do not follow very liberal policy?—With your permission, I will

give you an instance here. A bill was drawn by a party who was said to be first-class in every respect; that bill was accepted by the Exchange bank in India. This you will be able to see from the correspondence which I will read to you. It says: Messrs. F. A. of Buenos Ayres are very important buyers of jute goods in Buenos Ayres. The bank reference received about this party is given below:—

> "Virtually form part of the well known Chicago packing House. It is purely under American direction, though operated in Buenos Ayres as Argentine Limited, Co. Paid up capital 20 Million gold dollars. In October 1928, Reserves stood at gold dollars 1,446,000. Net profit gold dollars 1,581,000. First class in every respect."

An Indian Shipper in Calcutta of very good standing sold a small quantity of hessian to this party. The value of the goods was about £700. The terms of payment on which this party buys goods are that the sellers draw D/P sight bills on Buenos Ayres and the buyers make payment at the current rate of exchange between London and Buenos Ayres. When the bills drawn on this party with the necessary documents attached to them were presented to the Exchange banks in Calcutta for being discounted, the banks refused to negotiate them saying that they would accept only bills drawn under a confirmed letter of credit.

Thereupon the following telegrams were exchanged between the Indian shipper of Calcutta and its Buenos Ayres Agent through whom the goods were sold:

Despatched . . .	4th January 1930 .	" Why do you sell for terms other than Credit without our permission Reference to Order 87 must have credit."
Received . . .	6th January 1930 .	" Reference Order No. 87 cannot alter condition ".
Received . . .	Do. . . .	" Reference Order 87 we regret very much F. A. condition well known to you. Reference our letter November 28 year 1928 to please you if absolutely necessary credit will be opened by us ".
Despatched . . .	7th January 1930 .	" Reference Your Telegram to-day open credit. Don't sell any goods other than credit ".
Received . . .	8th January 1930 .	" Reference your Telegram to-day credit will be opened tomorrow, Shall we understand you will have also credit for sale to B. B. Buenos Ayres also S. F. if so business impracticable with them owing to all competitors sell without credit. Please reply immediately ".
Received . . .	Do. . . .	" Order 87 credit opened apply Royal Bank of Canada ".

It will be seen that the bills were drawn on a party which according to the bank supplying information about its standing is first class in every

respect and the drawer of the bills was an Indian firm of undoubted standing. Besides the respectability and responsibility of both the drawee and the drawer, the banks had the additional security of the documents of title to the goods. The amount involved was only £700. All the competitors of this Indian firm are selling goods to the Buenos Ayres buyer without requiring any letter of credit as their standing is of the highest. The refusal of the banks to negotiate the documents of the Indian shipper in Calcutta has lowered it in the estimation of the Buenos Ayres buyer. In this way profitable business is lost to the Indian firms.

The following extracts from letters sent by the Indian Shipper's American Agent will be of interest:—

Buenos Ayres, 7th January 1930.

Re:—Order No. 87 a/c Messrs. F. A. A.

..... the amount involved in this transaction is so small *i.e.*, £700 each month that we really can not very well understand the reason of your insistance in this particular order inasmuch as buyers are one of the largest concerns in the world.

In any case by our yesterday's cable we informed you that we shall be glad if you wish to have absolutely this credit to have same opened ourselves.

Buenos Ayres, 11th January 1930.

* * * * *

while dealing in the matter of payment terms, I wish to draw your attention to our last cables over Messrs. F. A.'s orders. I have been much surprised with the insistance of your firm to have a credit opened for this order; the amount involved was so small that I did not think worth while spending more money in cables, and I replied that my firm would open the respective credit. * * * * * * *

* * * * * * This firm would not purchase on any other terms than the ones already established and which are accepted by all our competitors.

Messrs. S. F. of Buenos Ayres are important buyers of jute goods from Calcutta. They are only a branch house of Messrs. S. F. Paris whose capital is 300 million francs. This firm has also an office in London. The financial report received regarding their Buenos Ayres branch is given below.

In August 1929 their capital and reserve were given as Paper $38,64,000 and profits amounted to paper $4,19,000. Dividend 6 per cent. Their capital and reserve now stand at paper $36,18,000.

The firm has its own jute mills and is an import buyer of both raw jute and manufactured jute.

An Indian shipper of good standing sold certain goods to this party. The terms of payment were that the seller was to draw 90 days D/A bills on the buyer's London Office. When the bills for £16,000 with documents attached were presented to the banks in Calcutta, they refused to negotiate those documents.

The following cables were exchanged between the Indian shipper and its Buenos Ayres Agent:

Despatched . . .	3rd October 1929 .	" Banks refusing accept documents A/c S. F. on the London Office D/A terms therefore negotiated D/P terms advise parties honour draft ".
Despatched . . .	4th October 1929 .	" Referring our telegram yesterday S. F. telegraph if may we negotiate balance September documents on the London Office D/P or will they open credit on London Banks ".
Received . . .	Do. . . .	" S. F. trying arrange tomorrow but expecting great difficulties ".
Received . . .	Do. . . .	" S. F. Buenos Ayres we regret very much refusing modify original terms agreed by you S. F. Paris will accept also your draft 90 days ".

In reply to an enquiry by the Indian shipper from the Exchange banks in Calcutta as to whether they would accept D./A. bills on S. F. London, one of the banks wrote as under:—

Your bills on S. F. London, D./A.

In reply to yours of the 4th instant we shall be pleased to negotiate bills as above if drawn under letter of credit.

Other banks also replied in a similar manner.

Extracts from the letters received from the Indian shipper's Agent in Buenos Ayres are given below:

Buenos Ayres, October 7th, 1929.

On receipt of your cable of the 3rd inst. we tried to see Mr. A. Manager of this firm, but unfortunately we could not see him; but we were sure that the matter could not be settled. We had a long interview with this gentleman on the 4th inst. and the only thing we have obtained was to get very strong remarks.

They insisted that we carry the contract on the original terms and they agreed to give instructions to Paris to accept the drafts too. This firm is very important indeed and the capital of the Paris firm is over 300 million francs, consequently we hope that you have been able to overcome the difficulties presented.

If in the future you cannot arrange with the banks at your end to have your drafts negotiated on S. F. Ld., London and guaranteed by S. F. S. A., Paris, please advise us and we shall not sell any more to this firm which does not buy on any other terms, as long as they can get such terms from our competitors.

Messrs. C. P. are owners of Jute mills in Santos in the Republic of Brazil. Their bank reference as received in a cable despatched by the .....Bank at the request of the sellers is given below:

"We are told: Milreis 5 million Reserve Fund Milreis 7 million more or less, Considered good for engagements, Capital Directors very respectable."

This party buys Jute. Its terms of payment are that the sellers draw sight draft on the buyers and the buyers pay by a bank's draft on London at the current rate of exchange between London and Santos.

A very big Indian shipper of jute sold 2,000 bales of jute on these terms. The shipper then addressed the following letter to the various Exchange banks in Calcutta,—

> "The terms of payment by one of our buyers of jute in Santos is that he wants us to draw at sight on him. Will you please let us know whether you will negotiate such drafts, if so, what will be the difference in the rate of exchange for such bills and 90 days sight bills drawn under letter of credit."

Copies of replies received from the Exchange banks are given below:—

1. "In reply to the enquiry in your letter of 18th inst. a sight bill on Santos would be about 1/16 higher than a 90 d/s. bill on London. It is not however the custom of the market to draw on Santos direct without letters of credit. The business is usually done through London under letters of credit opened by the buyers, which drafts we would be pleased to negotiate."

2. "In reply to your enquiry of the 18th instant we suggest that you ask your prospective buyers to put up sterling credits under which drafts are payable in London at sight or usance as may be arranged".

3. "In reply to your letter of 18th instant, we regret that the business proposed would not suit us."

Subsequently one bank after some exchange of correspondence agreed to accept the documents.

The shippers on enquiry from their Agents were informed that other parties in Calcutta sold to them on similar terms.

2489. *Chairman*: Are these all D. P. bills?—Yes.

2490. *Mr. Buckley*: Mr. Chairman, may I ask that the cases the witness cited just now be placed on the committee's table with the names filled in confidentially for the information of the committee?—I should very much like to go through the individual cases and give the explanation to the committee if they so desire. Witness: I cannot give the names of the parties without their permission. If the Chairman wants the name, I shall disclose it to him.

2491. *Chairman*: Would you disclose the names to me confidentially on the condition that those should not be disclosed by me to any of my colleagues on the committee?—Yes.

2492. *Sir Purshotamdas Thakurdas*: What objection have you got to the Chairman communicating these names to Mr. Buckley, because he wants to go into the question fully?—I do not want them on record.

2493. I do not suggest that those names should be put on record?—They should not go even to the Press.

2494. They will not be given in the printed evidence. A reference will be made about the facts which you have brought to our notice and the conclusions in regard to those instances will be recorded.

2495. *Sir Purshotamdas Thakurdas*: If Mr. Buckley wants to communicate with banks concerned, have you any objection?—No.

2496. *Chairman*: Thank you very much for the information.

Witness: I will send you the names later on. That is our experience in the case of jute business. In India we get bills—D.-P. documents—and the banks in London refuse to accept them.

2497. *Mr. Buckley*: Can you give the names confidentially?—Yes, I can give you these names also.

2498. *Chairman*: You say that the Exchange banks are concerned only with the export and import trade whilst the resources of the indigenous banks are insufficient for the purpose of the internal trade. May I take it therefore that there is no point in the complaint that is sometimes made that Exchange banks are competing with the indigenous banks in regard to the financing of internal trade and that if the Exchange banks enter this field, it will be to the advantage of the internal trade seeing that the resources of the indigenous banks engaged in the financing of that trade are, according to your statement, insufficient for the purpose?—If the Exchange banks enter this field, the Indian merchants will have to bid good bye to the internal trade.

2499. You say that many small industries have got to pay interest as high as 24 per cent., even when they borrow on the security of their assets. Will you tell the committee what banking agencies you are referring to?—Indigenous bankers and money-lenders.

2500. *Sir Purshotamdas Thakurdas*: Why is 24 per cent. paid? Is there not competition between the Imperial Bank or any other bank.—Bigger industries get help from the banks and the smaller industries do not get help from the banks. Therefore they have to go to the indigenous bankers.

2501. Irrespective of the soundness of the industry, they have to pay the high interest of 24 per cent.?—Yes.

2502. What sort of industries you have in mind?—Coal.

Do you call that industry a small one?—I mean a man of smaller standing undertaking that industry. Then, we have in mind leather industry, Oil mills, rice mills and tea gardens.

2503. These are not small industries. But perhaps you mean a man of lower credit undertakes these industries?—Not of lower credit but with lower means.

2504. *Chairman*: You say that many merchants in the upcountry centres have ample security to offer but still cannot obtain any loan. May I take it that you are referring to merchants trading in the products of indigenous industries?—Produce of the land, such as cotton, jute, etc.

2505. Will you kindly explain what you mean by ample security?—They have got goods to mortgage and house property, etc., but still they find it difficult to get these facilities. There may not be a demand for a certain quantity.—They require capital and they cannot hold on the goods.

2506. Why can they not hold on?—I may give the case of jute. For this we have no storing arrangements available in the up-country. This jute is, therefore, necessary to be exported out of India or sold to mills.

2507. When you are referring to lack of financial facilities are you referring to facilities by joint stock banks or facilities by other indigenous bankers?—I am referring only to the financial facilities. The facilities given by those classes of people who can afford to give such facilities.

2508. Can you tell the committee what in your opinion are the reasons for this insufficiency of financial facilities?—If those merchants who are connected with the upcountry merchants were able to get financial facilities, they would be able to give or extend those facilities there.

2509. You say that foreign Exchange banks finance industries under European control to a small extent. Can you tell the committee what industries you are referring to and what kind of assistance the Exchange banks give to such industries?—Jute mills. They get cash credits against stock.

2510. Do you mean to say that jute mills under European control get cash credits whereas Indian mills do not get?—I do not say so. We say those under European control get such facilities in the beginning.

2511. That does not help your statement. You say "foreign Exchange banks finance industries under European control to a small extent".—Yes, we say that some of them are doing.

2512. These foreign Exchange banks do not give similar facilities to jute mills under Indian control?—We cannot reply to that question, because we have not got any experience.

2513. You have made a statement to that effect and now you say that you have no experience.

2514. *Chairman*: You say that the staff of the banks do not possess adequate industrial and commercial knowledge and cannot judge whether a concern is intrinsically sound or not, and that the financing of industries to any great extent by existing banks is not possible. It has been pointed out by one prominent Chamber that banks are not faced with such difficulty at all and if industrial concerns furnish the banks with their balance sheets, it will not be difficult at all for banks to obtain a correct knowledge of the financial position of the concerns for purposes of advances and that if necessary, banks could always employ technical experts for valuation purposes. Have you anything to say on this suggestion?—We have already said that the only financial facilities available to industrial concerns is in the form of working capital and the banks advance money against security of stocks, but for other purposes banks are not in a position to finance because they are asked to maintain their resources in liquid forms. Therefore it is that we have suggested the formation of an industrial bank to provide facilities for industrial concerns.

2515. You are talking here only about the finances required for block and not the finances required for working purposes. Is that not so?—We are not restricting the activities of the Industrial Bank for providing credit for block only, but for meeting their current requirements also.

2516. But you know their current requirements are being met by the existing banks, then why is it you want the Industrial Bank to provide facilities for current requirements as well?—If that could be done, more industries would spring up in the country.

2517. You say that the Industrial Bank should have on its directorate prominent Indian businessmen drawn from all classes. Can you always ensure in a directorate elected by shareholders that men of the qualifications you suggest are chosen? If not, can you suggest any means of securing a qualified directorate for the Industrial Bank?—There is the Federation of the Indian Chambers of Commerce who can always give advice in these matters.

2518. *Sir Purshotamdas Thakurdas*: What have they got to do with the floating of an industrial bank?—They could suggest a few names from which Government might pick out the required Directorate.

2519. Don't you think that if a company is floated its directors are generally elected by its own shareholders?—In a few cases some outside agencies can also nominate a few directors.

2520. *Chairman*: I quite understand your point, of Government appointing a few directors of their own to look after the interests of the taxpayers. Apart from that, for the remaining number of directors, it may be difficult to insist on the suggestions which you have made with regard to their qualifications?—We don't lay down any hard and fast rule in regard to this. If Government took the advice of the Federation of Indian Chambers, it would be better.

2521. But apart from those representatives of Government on the directorate you don't see any practical way of giving effect to your suggestion that there should be on the directorate prominent Indian businessmen drawn from all classes. Realising the difficulty as you do now, you would leave it to the shareholders to make their choice?—Yes.

2522. You suggest that the initial capital of the bank should be Rs. 10 crores. The Committee have been told by one witness that a capital of Rs. 3 crores will be sufficient at the outset and may later be increased to Rs. 5 crores. Another banker has stated in his evidence that the capital of the Industrial Bank may be fixed at Rs. 50 lakhs to start with and may be gradually increased as required. Will you kindly tell the Committee what your limit of Rs. 10 crores is based on?—We think that Rs. 50 lakhs is too small a sum for an industrial bank to begin with, because it may have to issue debentures or under-write shares, but in that case the capital of the concern will be too small as a security against debentures, but we do not propose that the whole of Rs. 10 crores should be issued in the first instance. It may be started, say, with Rs. 2 crores and afterwards when necessity arises, more shares may be issued.

2523. You said that the capital of the Industrial Bank will be the security against debentures and that is one of the reasons why you want a large capital to start with. Is it really your intention that the capital of the bank should be the security against the debentures issued by it?—It is not exactly so, but the investor in these debentures will have an additional security.

2524. Is the investor concerned with the capital of the bank or with the guarantee of Government?—Government guarantee is only on interest and not on capital.

2525. Your idea is that Government should guarantee only the interest on the share capital and not the debentures?—Yes.

2526. You say that the proposed Industrial Bank should confine itself to taking time deposits only. One prominent banker has suggested that time deposits should, in order to avoid competition with joint stock banks, be limited to deposits for not less than three years. Would you approve of any such restriction?—Industrial banks should not only accept long term deposits, but they should accept short dated deposits like, 3, 6, and 12 months's duration.

2527. Then how will you regulate these time-deposits? You say these deposits should not be utilised for the investments in block?—That is a matter of detail which our Committee did not feel it necessary to go into.

2528. Do you contemplate that the Industrial Bank proposed by you should be authorised to issue debentures. If so will you kindly tell the Committee whether in your opinion the interest on such debentures should be guaranteed by Government?—We have already answered the point. The answer to the first part of the question is 'yes' and the second part 'no'.

2529. You say that the Central currency authority should issue fresh currency whenever required on the security of trade bills to the extent suggested by you elsewhere. I suppose you are referring to your suggestion in your prefatory note that provision should be made to enable notes being issued by the Reserve Bank to the extent of 25 per cent. of the total note issue on the security of first class commercial bills. Will you kindly tell the Committee what you mean by first class commercial paper? Will not advances of Industrial Banks be for long term and can bills held against those advances be considered to be quick assets?—We have already made our position quite clear in our memoranda.

2530. You are really referring to 'Credit' and not 'Currency'. Is that not so?—Yes.

2531. Could you explain to us what exactly you mean by 'first class commercial paper'?—They are bills drawn against actual transaction of goods against which banks are allowed to issue currency to a certain extent. I am talking of genuine trade bills.

2532. You refer to the high penalty charged by the Exchange banks for late completion of exchange contracts. Can you explain your point a little more fully?—We have explained it sufficiently in our memorandum. The penalty of 1/32 penny per week works out nearly to 1/5 per cent. per week.

2533. We do not know much about these transactions and we should be obliged for your giving detailed information on this point?—In the case of imports, suppose the contract for a shipment is to be completed in the month of April, but the goods might arrive late. The exchange contract will anyhow have to be completed by then. If the bills are not delivered within that period the Exchange banks charge certain penalty, which we consider rather high.

2534. *Sir Purshotamdas Thakurdas*: Your complaint is only that the penalty is too high and not that there should no penalty at all?—Yes.

2535. Do you know what the penalties charged in other countries are?—We have not made enquiries about that.

2536. Then what would you think to be a fair rate of penalty?—It can be determined by the Committee, but we have only placed the facts before you so that you can arrive at your own conclusions.

2537. *Mr. Manu Subedar*: Is it not a fact that the Exchange Banks are not always prejudiced by the non-fulfilment of your contract?—We cannot say, but we think that it is only a question of interest.

2538. *Mr. Buckley*: You have dealt correctly with the penalty for exports. May I however correct your statement as regards the penalty for imports which is 1/32*d*. per month and not 1/32*d*. per week as stated by you. The latter was the rate some time ago and is still the rate for the late delivery of sterling sales made by banks, *i.e.*, purely T. T. and on demand mercantile remittances. Though the penalty for late delivery

of sterling sales made by banks in respect of bazaar imports is 1/32d. per month owing to existing market conditions the bazaar importer can at present have his contract extended without penalty. I quite see that you have given the rate of penalty prevailing when you wrote this memorandum, presumably, last year?—We have no personal experience about these penalties, but the attention of the Chamber was drawn to this by a member who is dealing in import business. If the Committee is anxious to get further details on the subject we shall be glad to submit a separate memorandum on the subject.

2539. *Chairman*: Mr. Buckley, do you take any steps to publish your rules in regard to these changes in the penalty rates, etc.?—No.

2540. *Sir Purshotamdas Thakurdas*: As a matter of fact, I know out of personal experience, that these rules are a close preserve of the Exchange Banks. They don't publish them in any way and they quote their own penalty rates.

2541. *Mr. Rushforth*: Might I clear the position. So far as my experience goes, relevant extracts from the rules giving the changes in the rates are often supplied to merchants. That is my recollection.

2542. *Mr. Buckley*: But I can assure you or anybody that these rules are supplied to anybody who asked for them. But you have never asked for them till now, have you (to witness)?—Do you want us to keep a standing application with you for these things?

2543. *Chairman*: Are these changes at least notified on the premises of the Exchange Banks?

Mr. Buckley: That is not the practice.

2544. *Chairman*: You refer to certain existing bonded warehouses in Calcutta. Are they Government warehouses or private warehouses?—Both Port Trust and private, but not Government.

2545. You have also referred to certain defects in the working of those warehouses. Can you suggest any ways by which those defects can be removed?—This is for the Committee to go into. We want more facilities than exist at present; they will help trade very much.

2546. You have no suggestions to make in the matter?—No.

2547. But what about the charges? Do you want that they should be absolutely abolished?—No, we want the charges to be reasonable.

2548. *Dr. Hyder*: Have you anything to say about the dutiable goods? Do you think that duty should be paid before they are brought to the bonded warehouses or only when they are issued from those warehouses?—In certain cases the duty is paid before the goods are brought in; in others, when they are issued. There is no uniform practice.

2549. *Dr. Hyder*: What are these other articles which are taken into the bonded warehouses on which the duty is levied only when they are issued from the warehouses?—We have no personal experience of it, but we can make enquiries.

2550. Do you know if salt is one of those articles?—My experience being limited I am unable to say.

2551. *Chairman*: I want to know if you have any suggestions to make by which these defects in the existing warehouses may be removed. If you cannot answer now and if it is possible for you to give us information

after consulting your members, we shall be glad?—We shall be glad to collect the information for the use of the Committee.

2552. You say that the charges of the bonded warehouses in Calcutta are very high. Can you tell the Committee to what reasons you ascribe these high rates?—In the case of private warehouses, the reason is obvious; their object is to make as much profit as possible.

2553. *Sir Purshotamdas Thakurdas*: To what extent are they high?—We have not gone fully into this question, but we can supply the information after making enquiries.

2554. The Bengal Provincial Banking Enquiry Committee has suggested that the *aratdars* who are found in large numbers in many trade centres in the mofussil and in Calcutta are doing warehousing with their own staff and should be encouraged to make the necessary alterations to their existing warehouses and convert them into licensed warehouses. Can you tell the Committee your views on this suggestion?—If the banks are prepared to lend against the security of receipts, then certainly warehousing conditions will improve.

2555. You say that the attitude of the Exchange banks towards the Indian business is not as sympathetic as it ought to be. It has been pointed out that the Exchange banks are always prepared to put through any business proposition and the difficulty in regard to Indian business houses is that they are unable to provide the Exchange banks with balance sheets indicating their business and their correct financial position. Have you anything to say on this suggestion? You have already given us some facts. Perhaps you do not want to supplement those facts?—We have referred to the question of credits. We have said in our memorandum that merchants are required to deposit considerable margins in order to open their credits. But from enquiries made in other countries, we find that no such margins are necessary. I will here read telegrams received from Buenos Aires, New York and Sydney:—

Buenos Aires, 15th March 1930.—"Please inform what margin banks in your country require from first class firms for opening credits against imports. Information required for Indian Banking Committee."

Reply received.—"Banks here not requiring margin for opening credit."

New York.—"Please inform what margin banks in your country require from first class firms like Bemis for opening credits against imports. Information required for Indian Banking Committee."

Reply received.—"Replying your DLT. No margin required."

Sydney, 15th March 1930.—"Please inform what margin banks in your country require from first class firms for opening credits against imports. Information required for Indian Banking Committee."

Reply received.—"Referring yours 15th. No margin is required from 1st class firms."

As regards bank references, as I have already said, it is a very important matter to those merchants who are engaged in the external trade of the country. It has been brought to the notice of our Chamber that

in the case of some Indian firms, the bank references supplied are not satisfactory or are grudgingly supplied by the Exchange banks I am citing a case to show the difference in the treatment given to European houses and Indian commercial houses:—"Messrs. A. D. C. was an European firm doing export business in Calcutta. An Indian gunny merchant tendered a Mate's receipt against a sale made by him to this firm. The firm paid a cheque for it which was dishonoured. It was found that the firm negotiated the Mate's receipt with a bank and drew its value which they misappropriated to some other purpose. The Indian merchant had to settle the claim at about 8 annas in the rupee being unable to realise the full amount as A. D. C. went into liquidation". This happened only last year.

The Managing Director of the firm immediately thereafter started business in his own name. The name of the firm is J. H. & Co., Ltd. The firm has practically no resources at its command. It is our information that in spite of this fact the firm is not experiencing any difficulty in carrying on export business. We made enquiries in America as to the sort of reference the Calcutta banks supply about this firm to the overseas buyers, and are informed that the party is reported to be good for ordinary engagements. The antecedents of the person concerned are not mentioned.

In contrast to this we would like to cite the instance of a first class Indian firm. On making enquiries we learn that the banks from Calcutta advise foreign parties to exercise certain amount of caution in making contracts with that firm.

2556. Would you give me names, of course confidentially, for the use of the Committee so that we might pursue the matter further?—The proprietor of the firm was very reluctant to disclose this information, but the Chamber has requested him to do so because, in the opinion of our Chamber, that would help the Committee in arriving at right conclusions.

2557. We are much obliged to your Chamber for their help. In India how do you know a first class firm from a second class firm without balance sheets?—The banks make enquiries: before they enter into any transactions. I do not think there is any lack of information.

2558. *Sir Purshotamdas Thakurdas*: In the particular case that you have just cited, was the Indian company in a position to supply their balance sheet?—In fact they send their balance sheets to all the exchange banks.

2559. In that particular case, did they send one?—Yes.

2560. The Committee understand that there are a few Indian banks who do foreign exchange business though on a small scale. Will you kindly tell the Committee what margin is required to be deposited for opening credits?—I have never come across a single Indian bank which does this sort of business. I have been dealing in exchange on a large scale and I therefore know that the business done by the Indian banks is negligible for all practical purposes.

2561. You say that some of the Exchange banks will not make an advance against the security of goods held by them in case Indian merchants want time to take delivery of the imported goods. In the memorandum furnished by the British Members of the Associated Exchange Banks it is stated that importers in India in the majority of cases pay the import

bills by means of loans granted by the Exchange Banks who finance the bills against a margin of 20 per cent. of the value of the goods *plus* all import charges with interest at Imperial Bank rate. They report that goods taken delivery of by the importers from such loan account are either sold for cash or on credit of from two to four months with interest at 6 per cent. or more per annum to dealers. Can you reconcile your complaint with this statement?—We have also said in our memorandum that in order to help the import of piecegoods certain facilities are being given to the merchants engaged in that trade. If the Exchange banks will kindly supply the Committee with the names of the parties and the nature of the commodities on which such advances are made, then the Committee will perhaps be able to understand this point thoroughly.

2562. You say that a London party is always considered safe whatever its means. Have any grounds for making such a statement? It may be quite possible for you to indicate to us an instance where a London party without any stability was considered safe enough for business by Exchange banks. You have given us a case where an Indian firm, though its financial position was quite sound, was not considered safe by the Exchange banks for their purposes. But you have not produced any facts before us to substantiate in full your statements. But if you want to leave it at that, I do not wish to pursue the matter further. If you have more concrete examples, the Committee would be glad to have them?—I have already cited to you one instance.

2563. You have got no more cases to cite?—Many cases may be cited, but it is difficult to get the permission of the merchants to disclose it.

2564. You say that in the case of some Indian firms satisfactory references are not supplied by the Calcutta banks to the overseas merchants. Have you any evidence to show that bank references for Indians given by banks in India are not equally as good as those given by them for Europeans of similar financial standing?—I have given one concrete case to the Committee.

2565. You say that European bank managers in Calcutta readily believe rumours about the impending failure of Indian firms even when they have ample proof to the contrary. Can you give any facts to justify your complaint?—The Committee of our Chamber have certain facts before them but we are not prepared to disclose names.

2566. You say that the Imperial Bank has been restrained by statute from competing with Exchange banks while its competition with the indigenous joint-stock banks is unrestricted. Is not the restriction on the exchange business of the Imperial Bank due to the fact that the Imperial Bank is entrusted with the balances of Government and that the bank's entrance into the field of exchange will endanger the safety of Government balances?—In our opinion there is no danger. We have only to consider the present position of the Exchange banks and the profits that they have been earning, to realise how very paying exchange business is. One of the Exchange banks has recently spent a large amount of money in building a huge house in Calcutta; they seem to have done very well.

2567. *Mr. Buckley*: Do you not think that it would be unfair for a bank entrusted with funds which cost them nothing to be allowed to compete with Exchange banks which have to pay about 4 per cent. per annum? Would not such a bank be in a position to underquote any other

Exchange banks?—We do not think that there is any harm in the Imperial Bank competing with Exchange banks.

2568. That is not an answer to my question.

Chairman: Mr. Buckley's point is that it would be unfair to the Exchange banks if the Imperial Bank, with the privilege that it at present enjoys of free Government balances, were allowed to compete with the Exchange banks which do not possess that privilege. Do you admit the unfairness of the proposition?—We do not see there is any unfairness in that; in our opinion it will be in the best interests of the country for the Imperial Bank to come into the field.

2569. Mr. Buckley's point was, would it not be unfair to the Exchange banks?—We think that it is unfair on the part of Government not to allow the Imperial Bank to carry on exchange business.

2570. *Mr. Chetty*: If it is unfair on the part of the Imperial Bank, with huge Government balances, to compete with foreign Exchange banks, is it not still more unfair that the Imperial Bank should be allowed to compete with Indian commercial banks in the country?—It is still more unfair for the Exchange banks, with their vastly greater funds, to monopolise exchange business.

2571. *Chairman*: I must end up by saying that you have not attempted to answer the particular question asked by Mr. Buckley, namely, would the arrangement be fair or unfair to the exchange banks?—I have already expressed my opinion.

2572. So you do not want to answer the question?—I have answered it.

2573. Excuse me, you have not. You have only said that the arrangement would have been unfair to the people of this country.—From the point of view of the Exchange banks it would have been unfair.

2574. You say that the Imperial Bank is unrestricted in its competition with the Indian joint-stock banks. Are you aware that there are various restrictions on the internal business of the Imperial Bank such as restriction of advances to two-name paper; prohibition from granting advances for a longer period than six months or on immovable property; and prohibition from granting unsecured advances in excess of certain limits?—The ordinary joint-stock banks have to worry about cash balances while the Imperial Bank has no such worry.

2575. Then do you mean to say that though restrictions are not there on paper, in the interests of sound banking, they have to adopt those restrictions?—Yes, sound banking under the present circumstances.

2576. *Mr. Chetty*: The competition of the Imperial Bank with the Indian joint-stock banks is very unfair; the Imperial Bank has got free balances. When the Imperial Bank Act was framed, Government took care to protect the interests of the foreign banks and neglected those of the indigenous banks?—That is exactly what I have been trying to say all this time.

2577. *Chairman*: You say that the Imperial Bank should be asked to stop opening any further branches in the country and that the field of banking facilities should be left open to indigenous joint-stock banks. What objection have you got to the Imperial Bank opening branches at places where there are no banking facilities existing at present? If the Imperial Bank is prohibited from opening branches even at these places, what

guarantee is there that the joint-stock banks will open branches and extend banking facilities at those places? You have already discussed this matter at some length; perhaps there is nothing more to be added.

2578. You say that the Imperial Bank should be required to open branches at foreign centres and you also realise the possibility of the Imperial Bank incurring some losses in the initial stages. The object of your proposal is to open a profitable line of business to Indian merchants. Will that in your opinion justify the imposition of a tax on the general taxpayer which your proposal to compensate the Imperial Bank for the initial losses involved?—I have already shown that the advantage to the Indian trading community will be tremendous if the Imperial Bank and other joint-stock banks are engaged in the foreign export trade. Further, the benefit that will accrue to the community in general will more than counterbalance any tax that may have to be imposed on the general taxpayer.

2579. *Chairman*: The people who would get the benefit to start with is the mercantile community and I take it that the Indian mercantile community will not object to paying extra taxes for this particular purpose?—There may be some losses in the beginning, but not much.

2580. If an estimate of the losses was prepared and it was found to be a fairly big figure and it became necessary to impose taxation, the mercantile community would not object to paying such extra taxes?—They *are* paying taxes to Government.

2581. You say that the Chamber is not opposed to the audit and examination of bank accounts by examiners, if that is calculated to inspire more confidence among the shareholders and the investing public. What the Committee want is your opinion whether such audit and examination would inspire confidence among the shareholders and the investing public?—That will depend upon the way in which the department is run and the outlook of the Government responsible for creating that department. If the examination is carried out with a view to helping the Indian banks to develop and guard them against possible pitfalls, it would create confidence, but if it is carried out simply with a view to finding their faults and laying them before the public, that makes all the difference.

2582. But the result of all examination is bound to disclose some mistakes in working. Naturally if they are revealed, the bank management will attempt to tighten up its procedure and that itself would go to strengthen the public confidence. So I cannot understand the point of your observation. The person who conducts audit and examination will bring out all defects in an absolute and unbiassed manner. The bank management will then tighten up its arrangement, so that the public will see that people are reforming their methods. If, on the other hand, they do nothing, the public confidence will to some extent be diminished?—The department of Federal Reserve Bank which is responsible for such things is a sort of friend, philosopher and guide to the member banks. If we could have such sort of help, we have no objection.

2583. Your point is that you would prefer that the audit and examination should be done by examiners working under the Reserve Bank of India when it comes into existence?—Yes, and if it is managed by popular representatives.

2584. The question of popular representatives would open the door to all sorts of criticism. What may be popular to you may not be popular

to many members of this Committee, so we need not enter into that question. Here the point is if a Reserve Bank is established, you would like to have the audit and examination done by officers employed by the Reserve Bank.—Yes.

2585. You say that the word 'bank' should be restricted to institutions having a paid-up capital and reserve amounting to not less than 10 lakhs of rupees and that the smaller companies may use the word 'loan offices' as in Bengal. Would you tell the Committee what is the object of this proposal?—The word 'bank' has got some prestige and glamour about it.

2586. Then, for the purpose of prestige and glamour, would you impose the same restriction in regard to the capital of an indigenous banker who will be brought, according to your ideas, within the future banking organisation of India, because in his case too, prestige and glamour is required?—He does not call himself a bank.

2587. But he will perform according to your views all the functions of a bank. The indigenous banker also should have a certain amount of capital, before he can be brought within the scheme of the future banking organisation of India?—Only an institution which calls itself a bank should have these restrictions.

2588. Would you please tell the Committee whether you propose any restrictions to be placed on the smaller companies similar to those you suggest in the case of the larger companies using the name 'bank'? From what you told me now, you apparently do not?—I have only mentioned about capital.

2589. You want additional provisions and you do not want any restrictions to be put on them in regard to capital, but now we come to the other things?—They may be applied to the 'loan offices' also.

2590. Do you propose to bring the 'loan offices' within the future organisation of banking in India, *i.e.*, will they be linked up with the Reserve Bank?—Yes, if they want to become members.

2591. Irrespective of their capital?—We can lay down a certain minimum capital in the case of Shroffs, etc.

2592. That is, you would favour the idea of laying down a certain minimum capital in regard to loan companies and indigenous bankers who want to enter the future organisation of banking in India; it need not be ten lakhs?—Yes.

2593. Would you kindly explain how you propose to link up these smaller companies with the larger banks and other banking agencies in India? As I understand you, you do contemplate that they should be linked up, but you have not at all thought about the details?—They may become members of the Reserve Bank system.

2594. Have you anything to add to your answer in reply to this part of the question?—Nothing.

2595. You say that the power to issue, renew and cancel licenses to foreign banks should be invested in the Standing Finance Committee of the Government of India. Are you aware that this is not a statutory body, but is constituted only under the orders of Government with certain specific functions of an advisory character?—These functions may be included in them.

2596. Therefore, in regard to these functions they would be an advisory body?—Yes.

2597. *Sir Purshotamdas Thakurdas*: By 'Standing Finance Committee of the Government of India' I presume you refer to the Standing Finance Committee of the Legislative Assembly?—Yes.

2598. Do you know that this body is elected from year to year and the personnel on it may change from year to year?—Then we can have a separate body. We only suggested this as a tentative measure.

2599. In view of what I have said, have you any modification to suggest?—In other countries this power is vested in the Finance Member, but as we have stated in the memorandum under present circumstances in India Government is not responsible to popular will and therefore we would like to entrust this work to the Standing Finance Committee. If this Committee would change from year to year, a separate body may be created for this purpose.

2600. *Chairman*: But you realize that its functions would be purely advisory. My point is this: If the Finance Member does not accept the advice of the Committee, there is nothing to check him or prevent him. The real safeguard in these matters even under present conditions would lie in other directions. You may not have probably thought about them and therefore you adhere to this proposition?—We have modified it to this extent, *viz.*, that if the Standing Finance Committee is not found suitable in view of the information given, a separate body may be created for the purpose.

2601. For advising the Finance Member in regard to the granting of these licenses?—Yes.

2602. You say that the foreign banks should maintain an investment in Indian trustee securities to the extent of 25 per cent of their total liability in India. By enforcing a compulsory investment in Indian securities would you not be diminishing the resources available for the foreign trade of India?—The Government security is a sort of asset on the security of which money can be had at any time the Bank likes and therefore if they find it profitable to have more capital, they can have it on that security. We would like to give an instance. When there was a serious crisis in the Bank of Taiwan (a Japanese Bank) the Japanese Government came to the help of the Bank and the Bank was able to make payments to its depositors in India. If the Japanese Government had not come to its help, the depositors in India would have lost their money.

2603. Let me understand this clearly. These securities will be available to the foreign Exchange Banks for the purpose of obtaining advances, because you say they can always get money on these securities?—It was a mistake on my part to have said that.

2604. Therefore you have not answered my initial question?—All our recommendations should be taken together. We said that steps should be taken to encourage Indian banks to deal with Exchange business. If the banks begin to engage in business, ample facilities would be forthcoming.

2605. Even if there is a temporary inconvenience to trade and industry, that must be faced in view of the advantages to come in the future?—Yes, by the establishment of Indian Exchange banks.

2606. You say that the balance sheets of banks should contain more information than what they contain at present. Could you tell the Committee what additional information you want?—The particulars given in the balance sheets of banks at present are not intelligible and they do not give a correct idea of the position of the banks.

2607. I take it you have no specific proposals to make in this connection?—None at present.

2608. *Sir Hugh Cocke*: I think it was said that Indians were reluctant to place their balance sheets before bankers. Do you think that is really so in Bengal? Assuming that there is an audited balance sheet, would an Indian firm be reluctant to take it to a banker when he wants money to be advanced?—What we said was that there is a certain amount of prejudice and the firms think it derogatory to their position.

2609. In many cases I presume there would not be any audited balance sheet available, but only a domestic balance sheet?—Yes.

2610. *Mr. Rushforth*: You mentioned once or twice about the banking system of Australia. You are aware that some time ago there were considerable difficulties in trading with Australia owing to the difficulty of the Australian banks not getting credit in London. Do you consider that that was in any way due to a defect in the Australian Banking system?—That was a temporary phase owing to their imports being larger than the exports. The prices of wool, wheat, etc., exported from Australia went down considerably and the Australian Government wanted to restrict as much as possible of their imports.

2611. You do not think that indicated any defect in the Banking system of Australia?—No.

2612. As a matter of fact, has that difficulty disappeared recently?—The Australian Government are taking steps to meet the situation and there have been considerable shipments of gold from Australia to England. Recently one of the directors of the Bank of England had been to Australia to study the situation, and we get credits now.

2613. Suppose you had prohibition of deposits to begin with. I take it that most of these deposits would be transferred to the Imperial Bank and you want the Imperial Bank to do exchange business and you also want to give Government assistance to them for the purpose?—That is so.

2614. Don't you think there is the possibility of transferring the monopoly from, say, 13 or 14 banks to a single bank?—No, we have said that other banks also should be encouraged. But the Imperial Bank has got a certain amount of prestige. If therefore it starts branches in foreign countries, it would be able to carry on business with greater facilities, but the other joint-stock banks who start branches in foreign centres would find it difficult to carry on, because they would not get the same amount of co-operation or help from the bankers there as the Imperial Bank would be getting. But once the Imperial Bank is firmly established there, the other banks can follow suit.

2615. The assumption that they will get that co-operation is somewhat doubtful. I want you further to explain your statement that once the Imperial Bank is firmly established in this business, presumably by being able to offer facilities as cheap as those provided at present, the other banks will easily follow suit. I cannot quite see the point.—The sort of prejudice which is there at present against Indian banks would have been removed and the banks would find it possible to establish themselves.

2616. Do you think that the small amount of business that the Indian Exchange banks do now is due to prejudice or to their inability to offer you the same terms?—It is due to their inability to secure business, because the

success of an exchange bank depends upon its two-side flow of funds. It pays bill on London, while the London office pays bills on India, therefore the balances are set off against each other.

2617. In other words it depends on the merchants?—No, it would be difficult for them to succeed in the business.

2618. It would be difficult for them, because they have not got sterling facilities in London?—It is a sort of vicious circle. The share of Indian merchants is about 15 per cent. in the whole trade and no European merchants would go to an Indian bank to discount their bills, etc. Therefore the Indians cannot keep the bank fully supplied and the circle has to be broken.

2619. That is another point I was coming to. Suppose you transfer all your deposits to the Imperial Bank to begin with and you also give them Government assistance in order to allow them really to compete with the Exchange banks: that means they would have to narrow the margin at which they were working. Would not the result be that they would immediately take on all the existing business and give preference to the old established firms. There is no reason to suggest that they are going to take risks in business that does not appear to be profitable to the Exchange banks or Indian banks.—I have proved to the Committee that it is not a question of risk.

2620. It seems to me that what you are proposing will result inevitably in additional charges somewhere, or else Government must be prepared to subsidise the Imperial Bank indefinitely, or you are working towards a monopoly of the Imperial Bank or, alternatively, you are going to increase the cost of financing the foreign trade. Are you prepared to pay for that temporarily?—Yes.

2621. But you would not approve of giving the Imperial Bank a monopoly in foreign trade?—We never suggested that the Imperial Bank should be given a monopoly, but we said that a beginning should be made with the Imperial Bank, because in that there are certain advantages.

2622. So what subsidy should be given to the Imperial Bank would have to be carefully considered.—We do not think there would be any necessity for the Imperial Bank to be given any subsidy.

2623. Perhaps other banks would have started if they could have done it. They have tried to do it, but found that it is not a paying proposition?—I have mentioned the difficulties of Indian banks, while the foreign banks do not find any difficulties.

2624. But you have not explained how your restrictions in India are going to improve the facilities that the other banks require, which are largely facilities for cheap finance and co-operation in London?—I think I have made that quite clear. There is a certain amount of prejudice at present against Indian merchants.

2625. How are you going to remove that prejudice?—By bringing Indian banks into the field; we do not want a monopoly by non-Indian banks.

2626. Would it not be a simpler proposition, then, to say that any Indian bank wishing to do exchange business should be subsidised?—We have said that, if necessary, the Imperial Bank should be subsidised.

2627. Why the Imperial Bank instead of the Central?—There are some advantages: there is some prestige attached to the name of the Imperial Bank.

2628. That means the Imperial Bank will get an additional 60 crores of rupees to do exchange business. Why not extend your proposition of the subsidy to other Indian joint-stock banks in order to enable them to do exchange business?—It is not a question of subsidy alone. The Imperial Bank has a certain amount of prestige even in the London market and other foreign centres.

2629. You think you could do that even if, by your restrictions, you definitely prejudice the Exchange Banks with their large sterling resources. Would you run that risk?—I do not see how that can harm the Imperial Bank.

2630. You think the Imperial Bank can work independently of the Exchange Banks?—Yes.

2631. *Dr. Hyder*: One reason you gave for the slow development of banking in India is that there is the law of inheritance which leads up to the splitting up of the family fortune. Does not this law operate also in the case of non-Indians? Is the property of a non-Indian, *e.g.*, an Englishman or a Scotchman, not divided up on his death?—I think that depends on his will, to whom he has bequeathed his property. We are not conversant with the laws of different countries, but we know that in regard to many firms in India, when the father dies, the sons divide equally.

2632. Have you in mind the system of primogeniture?—Our impression is that business is not divided equally among the surviving sons of the deceased as it is done in India.

2633. I think the business remains in the family and all the sons have a share in the business. We have the very same system in India. You have the joint family system both among the Hindus and the Mussalmans. Where does your handicap come in?—The handicap is in this way: In England if a member wants to retire from a firm he takes a certain amount of share, but in India we find that if a partner wants to separate, the whole business is closed up and they carry on the business entirely separately.

2634. *Dr. Hyder*: You mention somewhere that the Indian industry has suffered on account of the high rate of Government borrowings. This high rate of Government borrowings is, perhaps, due to certain factors. When this high rate did not prevail in the past, what were the factors then in existence?—This question has been dealt with by the Tariff Commission which says that the industries in India suffer from powerful competition and they should be protected. In the absence of the fiscal policy of Government of India being changed, there will be no protection at all.

2635. You mention that the Imperial Bank does not require a mortgage of block against the loans to jute mills and it is not so in the case of cotton mills. Why is this difference?—You can ask that question to the Imperial Bank themselves.

2636. *Mr. Lamond*: What is your authority to make this statement?—This information was supplied to us by the members of our Chamber.

2637. I do not think so. The Imperial Bank does not accept block against the loans to the cotton mills.

2638. *Mr. Khaitan*: It is so in Calcutta. The witness is talking about the incident in Calcutta.

Mr. Lamond: I am talking about Bombay.

2639. *Mr. Mukhtar Singh*: You say that for certain industries you have to depend on foreign countries. May I know what industries you are referring to?—If you will refer to the list of imports and exports, you will find the first item would be raw materials, soap, chemicals, and there are many others.

2640. You say those industries which do not require high skill?—Yes, the skill is available in the country.

2641. You say something about the Hindu Law of Inheritance. Do you have the law of "*Mitakshara*" in mind which authorises a son getting the property of his father, etc.?—

Chairman: They say in their memorandum that they mean Law of "*Mitakshara*".

2642. *Mr. Mukhtar Singh*: You complain against the Hindu Law of Inheritance. Do you suggest any changes in that Law?—A note has been prepared by our Chamber and I shall send you that note.

2643. *Chairman*: I do not want this note to be sent by your Chamber. That will be a subject entirely outside the purview of this Committee. If you feel to take up that point you may make an observation, but the examination of the problem or its various aspects under the Law of *Mitakshara*, etc., is I think and my colleagues will agree with me, outside the purview of this Committee. How the Law of *Mitakshara* is to be changed would be a matter outside our purview, because that would be the examination of various other considerations, social and others.

2644. *Mr. Mukhtar Singh*: Do you not think that jute mills are in a better position than cotton mills?—Yes.

2645. Do you not think that the Imperial Bank was justified in giving better facilities to the cotton mills?—Jute prices are as much likely to speculation as cotton prices.

2646. Does the cultivator get adequate price for jute? Does he get his legitimate share?—That question we have dealt with in our evidence before the Provincial Banking Committee.

2647. *Chairman*: You have complained about the Government borrowing moneys at high rate of interest. Have you studied the question? Is it a fact that it is the Government of India who borrows moneys at high rate and in other countries the Governments are managing to arrange for loans at low rate?—That question refers to the management of the Finance Department of the Government of India.

2648. I want to have your answer on this question. According to your opinion you say that the Government of India is borrowing in this country at a high rate while the rate of interest paid by other Governments is less. How that arises is a question?—Because Government is having short-term borrowings.

2649. You are referring to the short-term borrowings. Taking the average borrowings of the whole year, is Government paying a higher rate than the other Governments? Is it necessary for them to pay such a high rate in case of their internal borrowings? If you have not examined this question thoroughly, you can say so?—We have simply mentioned what rate of interest the Government pays.

This is a sort of belief which you hold.

NINTH DAY.

Friday, the 29th August 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Mr. W. LAMOND.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. G. K. DEVADHAR, C.I.E.
Sir HUGH COCKE, KT.	Choudhri MUKHTAR SINGH.
Dr. L. K. HYDER.	Seth Haji ABDOOLA HAROON.
Mr. V. RAMADAS PANTULU.	Mr. R. K. SHANMUKHAM CHETTY.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Messrs. Husseinbhoy A. Lalljee, Lalji Narainji, S. N. Pochkhanawala and B. N. Karanjia, Representatives of the **Indian Merchants' Chamber, Bombay,** were examined.

2650. *Chairman*: You gentlemen, represent the Indian Merchants' Chamber, Bombay?—Yes.

2651. Am I correct in assuming that the operations of your Chamber are primarily confined to the Bombay Presidency and Sind?—We are dealing in all-India questions as well.

I put the question because there are other Indian Merchants' Chambers in other parts of India, one at Calcutta, one in Bihar and Orissa and so on, and we have received separate memoranda from all these chambers separately in reply to our questionnaire and it was for this reason that I used the word 'primarily'. Am I correct in assuming that your operations are primarily confined to the Bombay Presidency?—Commerce being an all-India subject and Bombay being the centre of trade and commerce in India, our Chamber takes an interest in all general matters connected with trade and commerce of the country as a whole.

2652. Now then, supposing there had been some differences between an Indian firm in Calcutta and say an Exchange Bank, would that Indian firm approach you for settling the affair or would it approach the Indian Chamber of Commerce, Calcutta?—The firm will naturally approach the Indian Chamber of Commerce at Calcutta.

2653. Therefore, your functions are primarily confined to the Bombay Presidency and Sind, and Commerce being a central subject, you naturally take a very considerable interest in important matters which crop up anywhere else in the country, say in Calcutta, in the U. P., or the Punjab or anywhere else. Would that be a correct position of the situation?—Yes, you may take it to be so.

My difficulty also arises from the fact that we had, as I have already said, separate memoranda from different Indian Chambers of Commerce in the country. If it was really one institution, it would have been more

appropriate if only one memorandum had been sent to us. That is the reason why I put the question to you. Anyhow we will leave it at that and proceed.

2654. Your Committee have stated that the first of the four fundamental problems connected with banking in this country is the revival of the system of indigenous banking at places from which it has disappeared and its strengthening in places where it has continued with diminished prestige and influence. You refer to the view expressed by your committee on the subject before the Bombay Provincial Banking Committee and state that your committee hold that the Imperial Bank should not now open new branches but appoint an individual shroff, or a group of shroffs where they can co-operate, to act as agent or agents to the bank. I take it that your statements are based more on a review of conditions prevailing in the province of Bombay than of those prevailing in the whole of India, for the investigations of the provincial committees and our own enquiries indicate that the position in regard to the shroff differs in different parts of the country. Have you seen the recommendations made by the Bombay Committee as regards your suggestion in para. 266 of their Report? Will you kindly tell us whether you approve of these recommendations?—We generally approve of them and we would draw the attention of your Committee to the summary of the recommendations contained in paragraph 171, page 251 of the Bombay Report.

2655. That is the summary. The proposed arrangement is described in the following words of the Bombay Committee:—"The approved shroff should lodge with the bank gilt-edged or other acceptable securities of amounts that might be mutually agreed upon, keep separate accounts of the business done on behalf of the bank and maintain regular account books which should be available to the bank for inspection and audit". Therefore, the shroff would become the treasurer of the bank. Do you think that suggestion if given effect to would go a long way to ameliorate the position of the shroff?—Yes.

2656. I am speaking from recollection. Lala Harkishen Lal bore me out when I said the other day that about 30 or 40 years ago some sort of a system was in vogue by which selected shroffs used to function as Government treasurers in the Punjab even without the intermediary of the Imperial Bank. My information is that these shroffs in those days were doing regimental work. I do not want to be very categorical as I am speaking without a full knowledge of the facts, but I understand some of these shroffs failed owing to various reasons and since then the system gradually died down. Do you know anything about it from your personal experience? I was told some such scheme was working in the Central Provinces and is possibly still in existence in some places of the province. Have you anything to say as regards the feasibility of the scheme adumberated by the Bombay Committee and can you tell us whether the arrangement therein suggested would be acceptable to the indigenous bankers?—We held a meeting of our Shroffs Committee and, from what I learnt from them, I may say they would have no objection in accepting these proposals. They even went to the extent of saying that if need be they would form themselves into small syndicates. The greatest difficulty was about the balance sheets of these shroffs, but even this difficulty they were prepared to surmount.

2657. *Sir Purshotamdas Thakurdas*: I would draw your attention to the words of the Committee: Would the arrangements be at all remunerative to the shroffs, who will have to lodge their securities with the Bank?—It all depends upon the business turn-over that takes place. Our point is that 10 per cent. of the capital requirements might be placed as security with the bank. If the working capital of the shroff is Rs. 20,000 and his business turn-over on that amount is Rs. 2 lakhs. then the bank must be satisfied with 10 per cent. of the capital, *i.e.*, Rs. 2,000 by way of securities.

2658. In order that there may be a turn-over of about Rs. 2 lakhs, you suggest that the bank should call for deposits of security only up to Rs. 2,000?—Yes, other conditions being satisfied, for example, the submission of the balance sheet, periodical examination of accounts, etc. When all the restrictions which the bank wants to stipulate have been satisfied, the Bank must be content with the security of 10 per cent. of the working capital of the shroff.

2659. *Chairman*: Supposing, a shroff begins his business with Rs. 20,000 as his capital, is it your intention that the whole of that capital will be supplied to him by the Imperial Bank or is it your idea that the shroff will put in Rs. 18,000 of his own capital and the Bank will in its turn finance the remaining Rs. 2,000 for which latter amount the shroff deposits securities with the Bank under the belief that the position which he would hold will attract a considerable amount of business?—The position is like this. Every shroff has got a certain amount of his own money which he invests. In the first instance, he wants more capital and more credit and his objective is that the Bank should lend him more money for the requirements of his business in the district or town concerned in return for which he is prepared to give a satisfactory explanation of himself to the Bank. The idea is that over and above meeting the specified restrictions already enumerated, the shroff is prepared to give some security to the bank in order to enhance his reputation in the eyes of the bank and the public.

2660. Therefore, to that extent you do not agree with the Bombay Committee that the shroff should furnish in every case security which is considered adequate in the opinion of the Bank?—Then it will only mean that there is to be no advance on credit. That will be no good at all.

2661. In particular cases at a station the Imperial Bank may, in view of the position of the shroff, agree to keep a certain sum of money with him on his own personal security *plus* a certain amount of tangible security in the shape of Government paper or otherwise. Of course you admit that a good deal must depend on what the Imperial Bank considers to be a safe security?—Certainly a good deal of it must depend on the Imperial Bank and that is why we have suggested a syndicate of shroffs. If more than 2 or 3 shroffs join together, the Imperial Bank should not insist on gilt-edged securities.

2662. Subject to that condition you agree with the recommendations of the Bombay Committee in this matter?—Yes.

2663. *Sir Purshotamdas Thakurdas*: You approve of this scheme with a view to the encouragement and revival of the indigenous banker class?—Yes.

2664. In a note prepared by yourself (Mr. Huseinbhoy Lalji) and Mr. Walchand Hirachand for the Bombay Banking Committee you say "The

system would be analogous to some extent to what prevailed in Bombay when importing houses appointed their guarantee brokers. Some of the textile mills both in Bombay and outside have their brokers who guarantee their contract for sales of their products as also their deliveries". What is your idea contained in this note?—We were asked how this would work and then we gave instances of big houses in Bombay, Calcutta and other places.

2665. Do you still stick to your statement that the system would be analogous? Do you think that by reducing the position of indigenous bankers to that of guarantee brokers in relation to the Bank is the best way of reviving the shroff system?—Not by reducing their position to that extent entirely.

2666. You still would expect them to work as guarantee brokers?—Yes.

2667. How many shroffs do you think will come forward to do business of that sort all over India?—At present they are doing business on their own account and if facilities are given on favourable terms, many will be coming forward.

2668. How many would you expect to come forward to work as guarantee brokers of the Reserve Bank or the Imperial Bank?—A very large number will be quite willing to do the business under those terms.

Let me put to you the suggestion of the Marwadi Chamber of Commerce which they placed before our Committee. That Chamber says:— "The conviction has steadily deepened in the minds of the Chamber that without the Shroff being recognised as a necessary link the credit system cannot be complete. The Board are, therefore, of opinion that the proposed Reserve Bank should give the indigenous bankers the same facilities and concessions as to the joint stock banks. At the same time it is necessary that the restrictions which may be imposed must take into account the peculiar needs of these bankers. For this reason the Chamber beg to recommend the following in this connection:—

(1) There should be, along with a schedule of joint stock banks, a schedule of shroffs to whom certain recognised financial facilities should be given.

(2) The shroffs who may conform to the standard fixed therefor should be included in the aforesaid schedule.

(3) The account books of the scheduled shroffs may be periodically inspected by examiners appointed by the Central Reserve Bank.

(4) They should be allowed to carry on the business of Commission Agents along with that of banking.

(5) They should be prohibited from trading on their own account. Now, then, which of the two alternative schemes that are now before you, would appeal to the indigenous bankers?—We agree that the suggestion put forward by the Marwadi Chamber of Commerce is a more useful suggestion than that put forward by the Bombay Committee and we agree that the former is more practical and better workable.

2669. *Chairman*: The recommendations of the Marwadi Chamber can come into force when the Reserve Bank comes into being, and under the scheme of the Reserve Bank as it now stands, it is the Imperial Bank which will do the treasury work of Government as agents of the Reserve Bank. Now that being so, if the shroff has to take any part in doing the

treasury work of Government, he will still have to function as the agent of the Imperial Bank. Is not that so?—It amounts to the same thing.

2670. Even when the Reserve Bank comes into existence under its present scheme, a shroff, to whatever description he may subscribe himself and whatever other concessions he gets, will still have to function as an agent of the Imperial Bank in regard to this treasury work?—Yes.

Therefore, we again come back to the Bombay Committee's recommendation. There are two kinds of work which the shroff will have to do, one as agent for the treasury work and the other as shroff proper. In his former capacity, the shroff has to submit an account, while in his latter capacity he stands as a principal and as such is also responsible for the moneys that he lends. Therefore I do not see much difference.

2671. *Mr. Manu Subedar*: Supposing the shroff lends out money which he receives from the Imperial Bank, do you think he should lend against securities?—He may also lend money on credit.

2672. But if he went to the Imperial Bank, he would have to lodge some further security?—The Imperial Bank could look into his accounts and his dealings with his clients before advancing him money. Moreover, much will depend on his credit with the Imperial Bank.

2673. *Chairman*: If I may give you some further trouble and pursue the point: Almost all the Provincial Committees have expressed themselves as sympathetic with the indigenous banker; but some of the Committees are of opinion that the indigenous banker will gradually disappear and only recommend that his demise should be a slow one and not a sudden one; they do not even suggest what, if any, position is to be allotted to the indigenous banker in the banking structure of the country. The U. P. Committee have made certain other proposals which find a place in some of the other provincial reports as well. They have made four proposals. I should like to know your views on those four proposals. (Here the Chairman handed the witness a copy of the U. P. Report to read.) Should you prefer it, I am quite willing to suggest that you place these proposals before your Chamber and communicate to us your views after consultation.—Certainly, we should like to do that.

2674. *Mr. Khaitan*: There are just two points on which I should like to have a clear expression of your views. In answer to Sir Purshotamdas Thakurdas you admitted that the system advocated by the Marwadi Chamber of Commerce was better than the system advocated by you. Then in answer to another question you said that the two systems were not different, and that gave me the impression that you suggested that both might be tried.—What I said was that both the things were almost the same.

2675. You suggest that shroffs should be appointed as agents of the Imperial Bank. Then, could the depositors hold the Imperial Bank liable for the deposits they made? I mean, would that be the logical or rather the legal conclusion of the agency system?—In that case of course the Bank has to consider even the question of gilt-edged securities.

2676. I am not thinking of the gilt-edged securities at the moment. I am only referring to the liabilities of the bank who appoint shroffs as their agents. Is it a part of your scheme that the Imperial Bank who appoints shroffs as agents should be liable to those persons who deposited money

with the agent?—Up to now we were only considering the question of the moneys which the shroffs would be getting from the bank and lending to the people outside.

2677. If they receive deposits and lend money, would that not be part of your scheme?—Our scheme relates more to lending of money than the borrowing of it; the latter is not so important.

2678. Then you would not allow that? Would not the other natural conclusion follow, namely, that in so far as the receiving of deposits is concerned, the bank is not able to take advantage of the situation?—That would certainly be the conclusion.

2679. Therefore what would be the advantage to the bank in appointing agents if it could not receive deposits?—Our general impression has been that these large banks were drawing money from the districts to the principal towns and that the districts were as a result starving for want of money.

2680. You said that the agents would get facilities from the bank and would lend out money; you also said in answer to a question of the Chairman that their business would be to receive deposits and lend out moneys? —No, not receiving deposits in the name of the bank; they could do that in their own names.

2681. Do you mean to say that so far as receiving deposits is concerned, they could act as principals, and that as regards lending money they could act as agents of banks? Would you just consider whether that would not introduce a complication which is not desirable? If the people in the locality find that this indigenous shroff, who is acting as a shroff of a bank, hypothecates his assets to the bank in order to ensure recovery by the bank of its dues, would that inspire the people's confidence in that shroff?—That the shroff hypothecates his assets does not show that his dealings are bad.

When you consult your committee on certain points which the Chairman just now put before you, may I also request you to consider this question also more carefully and make suggestions to this Committee?

2682. Another point which I wanted to have cleared up is your suggestion that the scheme put forward by the Marwadi Chamber could be brought into operation after the establishment of the Reserve Bank. Is there any reason why the Imperial Bank, which is at present receiving Government balances, should not be considered as performing all the functions of the Reserve Bank so far at least as your scheme is concerned? Do you see any difficulty in bringing your scheme into operation?—I see no difficulty.

2683. *Mr. Chetty*: You said just now that the tendency is for deposits to flow into joint stock banks which are situated in the provincial centres and the difficulty is how to ensure that that part of the deposit money is distributed in upcountry centres. Is that not so?—Yes.

2684. Now, there are very many merchants in the upcountry towns who are well known to the local money-lenders but whose financial position and status is not so well known to the joint stock banks in the provincial centres?—It may be so.

What I am suggesting is that one difficulty is that the ordinary trader of good standing and sound financial position upcountry does not get all the facilities that he is entitled to, simply because the details of his

business, etc., are not so well known to the joint stock banks as they are to the local moneylenders.—Quite right.

2685. So you think that in a situation such as this the shroff would be very useful?—Yes.

2686. Two ways have been suggested through which these indigenous moneylenders can be utilised by the banks: one is that they should act as their agents in these centres; the second is that they should be a medium to provide increased credit facilities to the merchants and trading communities. These are the two methods by which the indigenous moneylender can be utilised. The problem before us is: what security must the bank have, if it is to engage local moneylenders in discharging this business between the bank and the local merchants? Even as it is, is it not a fact that the Imperial Bank has got a list of approved Multanis whose bills they rediscount? Therefore, what you would suggest is that when the Reserve Bank is established this system must be enlarged so that the indigenous moneylenders' bills may be rediscounted more easily. Is this not what you mean?—Exactly.

2687. If the local shroff or moneylender is to be entrusted with this business, what in your opinion should be the restrictions he must be subjected to by the Reserve Bank?—We have already suggested that he should send in his balance sheet and have his accounts regularly inspected.

2688. Do you think it should be an essential part of the scheme that he must be prohibited from carrying on any other business except moneylending?—I would not say that. Our intention is to supply money to the interior where money-lending business is not sufficiently developed. Therefore, the money-lender must be allowed to do other business also.

2689. You would at least require that in the case of a local shroff carrying on business other than mere money-lending, the two transactions should be kept quite separate?—Quite separate.

Chairman: If you just turn to the Summary of recommendations on page 251 of the Bombay Provincial Report, there are a number of recommendations,—first one dealing with rediscounting business and advances against stocks; second (paragraph 169) regarding facilities to shroffs of approved standing; the third regarding the appointment of advisory committees; the fourth one is an additional recommendation which arises out of the specific demand placed before them by the Indian Merchants' Chamber. With regard to the rediscounting facilities it has been suggested that the shroff should get better facilities than what he now receives. The Imperial Bank carry on the Government's treasury business at certain places; now it is proposed that instead of opening other branches for this purpose, the Imperial Bank should make use of the shroffs, the shroffs being their agents. That is where the agency part comes in. They will function as their agents for the carrying on of the banking business of Government. Now in that connection, the Bombay Committee recommend that the agency system should be introduced tentatively at selected places where there is no organised bank either joint stock or co-operative, that the shroff nominated as agent of the central banking institution should receive funds from it to be employed by him at his own risk in making advances within sanctioned limits and subject to such general conditions as may be prescribed by the bank, at a rate of interest not exceeding 2 per cent. over the rate charged by the bank. The agent should do no business other than banking and so long as he undertakes to bear losses, if any,

he should not be prevented from doing his own private banking business, but he should not make use of the bank's advances for his private business. He should lodge with the bank gilt-edged securities. That recommendation is something additional to what Mr. Chetty was referring to; that is, the grant of greater rediscounting facilities and advances against stocks or trading facilities on the hypothecation of goods. The Bombay recommendations are as many as six.

Mr. Chetty: Sir, my point was that the shroff is called upon to perform dual functions; one as agent of the bank, and secondly as a medium for the extension of facilities to people upcountry. I want to know whatever the functions he may be called upon to perform, whether the fact that securities may be demanded from him will not depend upon the merits of each individual case.—With that I quite agree. This is a matter which will have to be settled in each case by the shroff and the bank.

2690. *Chairman*: Will you be good enough to get your Chamber's written opinion on these two matters, *i.e.*, the views of the Bombay Provincial Committee and the views of the U. P. Provincial Committee?—Yes.

2691. *Dr. Hyder*: The question put to you by Mr. Chetty was that at present the local moneylender knows the needs of the merchants, while the bank does not; and there is no link between the local moneylenders and the local bank, and the latter is not in a position to judge the credit worthiness of the shroff or moneylender or the indigenous banker. Now I ask you, if a Central Bank were to be established, how is that bank going to be in a position to assess better and more correctly the credit-worthiness of an indigenous banker with whom the existing joint stock banks are not able to deal at present?—We do not say that the Central Bank only would be able to do that.

2692. You contemplate then that there should be any number of branches just as the Imperial Bank has?—There will be branches and they will appoint Shroffs as their agents.

2693. If they are going to appoint Shroffs in far away places, how is the Central Bank or Reserve Bank going to be in a position to assess the credit-worthiness of these people scattered all over India, when even the existing banks are not at present in a position to do so?—At present we are thinking of a bank to which Government would like to give facilities in the district and certainly such a bank will have its own offices in principal towns and cities and they can have communications with the Shroffs in the different small places. I understood Mr. Chetty to say that if there was a bank in Poona and if there were Shroffs in Poona, the Shroffs in Poona would be in a much better position to know the needs of the people of Poona than the bank officials.

Mr. Shanmukham Chetty: I was thinking of the medium between the actual borrower and the banks.

2694. *Dr. Hyder*: But what is the difference at present between the medium and the branch of the joint stock company?—The person who lives with his own people day and night knows the condition of the people better than the bank manager who may not be so much in contact with the people.

2695. *Chairman*: It is from that point of view that I made an observation earlier, namely that under the present scheme of the Reserve Bank, even when that bank comes into existence, the Imperial Bank and its

numerous branches will function as agents of that bank in regard to Government Treasury business and if that scheme holds the field ultimately, the liaison between the Central authority—the Reserve Bank—and these indigenous bankers will have to be effected largely through the agency of branches of the Imperial Bank. Would not that be correct?—I go further and say that whatever the position of the Reserve Bank may be, the Imperial Bank, or for the matter of that, the Central Bank who gives all these facilities must have facilities from the Imperial Exchequer. If these banks are prepared to give the shroffs and business people or the agriculturists in the district these facilities, certainly they are entitled to ask Government for some more help.

I am not concerned at the moment with the question of Government assistance to the Reserve Bank. My point was to try to visualise the picture as to the channel through which all these things have to be done, and therefore I suggested that if the present scheme holds the field, the liaison between the apex bank and the various indigenous bankers at certain stations would in all probability have to be established through branches of the Imperial Bank.—Quite right.

2696. In reply to one of my questions, you said that the real object on your part was to prevent money from districts being drawn into the cities and outside. Therefore, your fundamental point is that thereby the rate of interest in the semi-urban and rural areas would be reduced and that that in itself would facilitate trade and commerce and business generally. Has your Chamber ever thought out whether that object (and I must admit that it is an object deserving great commendation) can be secured in any other way than by reviving the system of indigenous bankers?—Our Chamber considers the revival of the Shroffs as the only agency.

2697. *Mr. Ramadas Pantulu*: May we know whether the Chamber has considered the suggestion of the Central Bank of India, which Mr. Pochkhanawala explained to us, about creating facilities for banking in rural areas?—We have considered it; in a way it is also a very good suggestion.

2698. *Chairman*: You would like to see these district joint stock banks established, but still for the purpose of liaison between them and the actual agriculturist or whoever he may be, you will have the medium of the Shroffs?—Yes.

Mr. Ramadas Pantulu: For the commercial bank the liaison should be the co-operative bank.

2699. *Chairman*: I think the point is that co-operative banks will undoubtedly take over the work gradually, but until they can do so, what is to be done? The Indian Merchants' Chamber say that until you reach that millenium, something should be done to keep trade and business going through the means of the indigenous bankers. Would not that be your attitude?—Yes.

2700. *Mr. Devadhar*: You would not be against the co-operative agency coming into the field gradually?—We are not against co-operative banks except that we do feel that some people have said that the mode of lending and the amount of securities they want, etc., are such that they do create some difficulty.

2701. *Chairman*: You say that any foreign bank which wants to operate in this country should be registered in rupee capital. Is it your intention that this should apply only to banks established in future or to existing banks also?—We mean both. Our proposal is that these banks should

have a Board in India, composed partly of Indians as they would be better able to know the needs of the people and of Indian trade itself.

2702. Then the sole object underlying your proposal is to provide for better contact between the existing banks and their Indian clients?—Yes, and also sympathy with Indian trade.

2703. It is then only to establish better contact and more sympathy and friendly relations?—There will be one advantage. In so far as financial responsibility is concerned, I have nothing to say about the present, but as regards the future, we shall be able to know about the financial condition of any bank that may wish to do business and become a borrower.

2704. This last consideration applies only to those banks which want to establish themselves in India in future, but in the case of the existing banks, the considerations in your mind are those which you mentioned, *viz.*, an endeavour to secure better contact and better relations, including greater sympathy with the Indian trader. Am I correct in assuming that?—Yes.

2705. Would you kindly explain to the Committee whether your proposal in the case of the existing banks is feasible and how you want it actually to be carried out in practice?—We find now-a-days that different companies are registering their business in India, *e.g.*, the Ford Company Limited. In like manner, an exchange bank wishing to do business in India can have a separate concern.

2706. You say that they should register themselves in rupee capital: perhaps there might be no difficulty in regard to a majority of Indian directors but there may be about a majority of Indian shareholders. Can you tell me from the practical point of view how the existing banks are going to reconstruct themselves on those lines?—I would not insist on a majority of Indian shareholders if there is a sufficient majority of Indian directors in the old established firms.

2707. I want to know whether that proposition is feasible at the present moment?—It is feasible.

If you will kindly explain to the Committee how this proposition can be made feasible, we shall be obliged. Take, for instance, the Chartered Bank—If they wish to do business in India they should start a company with a rupee capital, say with a crore of rupees. I understand, for example, that the Allahabad Bank is incorporated with the P. & O. Bank and that the P. & O. Bank is again incorporated with the Chartered Bank. Thus they can very well do business, taking up the whole bank or a portion of it and form a Chartered Bank of India.

2708. *Chairman*: The banks you refer to started with rupee capital. There was no difficulty, but here this old bank has got a sterling capital. Without starting another subsidiary company with rupee capital, how can they reconstruct themselves on the basis of rupee capital? That is the precise point on which I thought I should like to have information.—The Indian company will be a subsidiary company of the Chartered Bank.

Therefore a new company will be formed. It is not a practical proposition in the case of the existing company.

2709. *Mr. Manu Subedar*: Would you like your rupee companies formed in this manner to be controlled by foreign banks as the Allahabad Bank is controlled? How would this meet the object you have in view? If the Chartered Bank, for example, started a rupee company and then continued

its work exactly as it is doing now with entire control of the Chartered Bank directors in London?—The control would be of the Indian Directors, the major portion of the holding being offered in India.

2710. *Chairman*: Obviously you cannot have a majority of Indian directors without a majority of Indian shareholders and therefore you would also prescribe for majority of Indian shareholders?—Yes.

2711. You said that the company should offer shares for subscription in India. Would that ensure a majority of Indian shareholders?—There will be many people who will subscribe but if the Chartered Bank does not enjoy the confidence of the people, then certainly it might not be supported or recognised.

I am talking from bitter experience. It is not a question of its commanding the confidence of the public in India. I am sorry to have to make the observation that the national point of view is so far not very prominent to the Indian from the point of view of business. The offer may be made, the capital may even be subscribed, but I have seen cases where with the initial subscription a transfer certificate is handed over to the promoter and all the shares will pass out of the hands of Indians. I do not want to give away confidences, but this matter is well known. The question was fully discussed by the Standing Finance Committee when they wanted to float a civil aviation company in India with a majority of Indian shareholders. After examining all the pros. and cons., Government had to make it a State concern.—That might be the experience in that case. We do not want frauds to occur, we want genuine concerns to come in.

2712. How can you ensure that? The only way, from my experience of the civil aviation company, would be for the Government of India to start this bank?—I would rather lose the benefit of the shares than allow the bank to function if it does not meet this condition.

I was trying to find out the practicability of the particular suggestion you made.—The export and import business is a great guarantee for them to introduce Indian capital. There is no dearth of capital in India.

That is a question of opinion and I am afraid from my personal bitter experience I cannot wholly subscribe to that opinion. We shall leave it at that.

2713. You state that the proposed institution for the finance of industries may be called an Industrial Financing Corporation or Syndicate, but not a bank so as to obviate any difficulties regarding the definition of the word 'bank'. What difficulties do you refer to?—The general impression is that where there are current accounts and short deposits, there is the likelihood of runs on the bank. In a syndicate or corporation the policy would be long period loans and such concerns ought not to function as ordinary banks. In fact I would say that industrial banks should not take ordinary banking business, which is lending money for short periods, financing trade bills, and so on. We make it a quite distinct entity.

2714. My question really arises out of your definition of the word 'bank'. In answer to question 3 under "Regulation of banking" you say that your Committee are of opinion that the use of the word "bank" should be restricted and be used only by ordinary joint stock banks registered under the Indian Companies' Act, banks which carry on lending and borrowing business. You do not here refer to lending simply for short periods. Therefore, if your bank is to do lending and borrowing business,

your industrial corporation or syndicate will also do lending and borrowing business.—We would like to make it quite clear that the Industrial Syndicate or Corporation would be a Corporation which would not be doing regular banking business and those who want to invest in it ought not to consider it a regular banking institution in the sense of lending for short periods, trade purposes, etc.

That would be made clear in its prospectus and articles of association.—We want to make the bank quite distinct so that people can invest their money freely.

2715. Surely, you want your industrial bank also to be linked up with the Reserve Bank if it is established?—The Reserve Bank will have to allot a certain portion for their business.

2716. Will it not be simpler from every point of view to call it a bank?—What we really feel is that a bank means a bank which would meet calls at any time.—Not necessarily—I should think it is much better to have it that way.

2717. You have not said so in your definition of a 'bank'.—We would make it clear now.

2718. *Mr. Manu Subedar*: I want to know whether you object more to industrial banks lending for short periods or borrowing for short periods?—Borrowing for short periods.

2719. *Chairman*: You say that Government should guarantee interest on the share capital of the industrial financing corporation. Is it your intention that this guarantee should be for a limited period of years or that it should be of a permanent character?—Limited, just as in the case of railways; say for about 5 or 10 years.

2720. Would you allow the industrial financing corporation to supplement its capital by issue of debentures?—Yes.

2721. In that case, is it your intention that there should be a Government guarantee for the interest of these debentures?—Yes.

So far, the opinions we have heard are divided. I think one of the gentlemen who is here with you definitely expressed the opinion that it was not necessary.—We should think it is necessary.

2722. In that case would not the liability on the State substantially exceed 10 to 15 lakhs?—If it did, we would welcome it, because it would be in the interest of the industries for which there is great need in India.

2723. Your point was that the burden would not be a very large one, but you modify your statement to this extent?—Yes.

2724. You do not care if the burden is very large? Supposing they had to issue, to start with, something like 10 crores of debentures, Government will also have to guarantee the interest on these debentures.—Taking the iron and steel or the shipbuilding industry, the work to be accomplished will be a national necessity. There is no harm in it.

2725. It is not a question of harm. I want to know what your Chamber would definitely advocate?—We recommend it.

2726. *Mr. Shanmukham Chetty*: You just now said that your Chamber would recommend that Government should give a guarantee of interest for a limited period. I suggest to you a method that has recently been adopted by the Madras Government with reference to land mortgage banks. What the Madras Government do is that they guarantee interest on the

debentures issued by the land mortgage bank up to a maximum limit of 50 lakhs of rupees issued during the first five years of the existence of the land mortgage bank. The object of this limited guarantee is that the investing public must first have confidence. If Government gives a guarantee and makes the concern going, the public will become familiar and come in. Do you not think it will meet your purpose if a similar procedure were adopted and if Government guarantee a maximum limit of 2 or 3 crores of debentures issued during the first five years of the existence of the industrial bank?—I do not want to keep a limit.

2727. But do you not think it will be sufficient if Government guarantee interest on the debentures issued during the first five years of the existence of the bank?—I will not restrict the period to 5 years. I said 5, 10 or 15. It will depend upon the kind of work undertaken.

2728. *Mr. Chetty*: Do you think that it will answer your purpose if a maximum limit is fixed by Government?—We discussed this matter fully and we find that the necessity in India for this is a great one. We always consider that such works are undertaken by Government in the interests of the national cause. In Japan it has been done.

2729. *Mr. Khaitan*: You said in answer to the Chairman that you would recommend Government guarantee of interest on debentures issued by the industrial bank. Now, we have to consider whether Government are likely to give this guarantee. Do you think it necessary to obtain Government guarantee for the payment of interest in view of the fact that you recommend a large share holding of the Industrial Bank and that the amount which would be held in shares would serve as a margin for losses that may be incurred by the floatation of debentures?—I do not follow exactly.

2730. I will put it in other words. You advocate that the industrial bank should have a capital of two or three crores of rupees. Suppose an industrial bank issues debentures of, say, the amount of ten to fifteen crores of rupees; these two or three crores of rupees of share capital would be held as a margin for the security of debentures. Do you think that would be a sufficient guarantee for the debenture holders to dispense with the necessity of obtaining Government guarantee for the interest on debentures?—Our first impression was exactly what you put, but subsequently we found that the needs of India are such that we have to undertake very big work at times. Therefore, it is necessary for us to have the guarantee at least for one year, five years or seven years. As Government themselves cannot carry out these big works, they must be able to help us in other way for the construction of these works.

2731. Do you advocate that industrial banks should issue debentures on the security of particular industrial concerns or that the industrial bank should issue debentures on the security of the securities held by it?—On general securities.

2732. So you advocate that the debentures should be issued by the industrial bank on the general security of its assets and the other securities held by the bank?—If we are going to restrict our operations of industries to a small extent, it will do, but if there is a necessity for having say, a ship-building yard, what are you going to do?

2733. That may be a special thing which may be specially considered. But apart from that would you generally require the guarantee of Government for the interest on debentures?—It all depends on the circumstances.

2734. You mentioned the period of five or ten years in answer to my question just now. Do you refer to the Government guarantee for five or ten years or to the debentures issued during five or ten years?—We mean debentures issued within the period of five or ten years.

2735. You mean according to the scheme of Mr. Chetty?—Yes.

2736. *Mr. Devadhar*: I should like to know whether you intend that these industrial banks should promote industries or simply finance industries. What is your opinion?—We want the industrial bank to do both.

2737. *Mr. Manu Subedar*: There are several proposals in connection with the financing of industries including the proposal for a special institution. In connection with this the suggestion has been made in some cases that Government should guarantee share capital and in others that Government should guarantee debenture capital and not share capital. If Government guarantee share capital, it may happen that if finance is required for an industry, and that is given by debentures, Government or the bank would be anxious to see that there will be no losses on share capital and the debenture capital will be neglected. What guarantee is there that the directors and managers would act in an efficient and proper manner?—I do not see why you should suspect the directors and managers in carrying out their work.

Chairman: You have never recommended guarantee of share capital. You have only recommended guarantee of interest.

Mr. Manu Subedar: If I take a share of the industrial bank with the Government guarantee for interest, I would regard it as equivalent to 3½ per cent. Government paper, whatever the rate of interest.

Chairman: No, you cannot; because they have recommended that the guarantee of interest should be for five years.

2738. *Mr. Manu Subedar*: Do you want the double guarantee, both in respect of interest on shares and debentures?—Yes.

2739. You know there is a difference in the issue of debentures and shares. Do you think that the population of this country would take kindly to debentures?—In this connection we would refer you to the latest report of the ex-President of the Tariff Board. We would say that this is a trifling matter as compared with the development of industries in this country.

2740. You suggest that there are certain other factors which prevent the development of industries. From the investor's point of view I say that there is a heavy stamp duty. Do you consider it is one of the impediments?—Yes.

2741. Do you suggest any modification?—The stamp duty should be reduced.

2742. *Sir Hugh Cocke*: You say in your memorandum that it is not intended that the Corporation should find the whole finance for either fixed capital expenditure or for working capital, etc. Suppose an individual comes for finance, do you suggest that the bank should give him financial help for block only.—Yes.

2743. *Chairman*: So long as Government have any liability in connection with the guarantee of interest on the share capital, would you provide for the exercise of an adequate control by Government on the activities of the industrial corporation?—Yes.

2744. It has been suggested by some witnesses before the Committee that an industrial concern should be helped with long term finance by an institution of the sort you propose, only if the concern has found at least 50 per cent. of its initial capital. Would you tell the Committee whether you agree to this suggestion?—I cannot say exactly 50 per cent. But some percentage should be fixed.

2745. You accept the principle that the concern must find some portion of initial capital. Is it not?—Yes.

2746. When this industrial financing corporation makes advances to industries, I take it that it is your intention that these advances should be secured by block or other assets of the concern?—Yes.

2747. You say that not more than 10 per cent. of its capital should be allowed to be lent to a particular division of a province. What do you mean by the word 'division'? Do you mean the present administrative division? That is to say, just as we have in Bombay, the northern division, the southern division, etc.?—Yes.

2748. But where there are no such division, for instance Madras, I suppose you would change that to district. Is it not?—We mean some convenient administrative division.

2749. You state that you are not in favour of audit and examination of the banks' accounts by examiners other than as provided at present. It has been represented to us by an association speaking on behalf of the investing public that such examination will go a long way in restoring confidence among the investing public. Have you anything to urge to the contrary?—So far as the joint stock banks are concerned, we find that these banks' accounts are being audited by certified auditors. It is their business to audit the books of the banks. If an inspector is appointed, he would not be of that status or position as that of some well-known auditors who are at present being employed by well-known banks. It would be only a cursory examination. We do not wish that the responsibility of directors and that of auditors should, in any way, be diminished by the fact that an inspector has seen the accounts or that an inspector has examined the books cursorily. Furthermore, it is always necessary, in banking concerns specially, to have persons who have got an intimate knowledge of this sort of audit work and who can be relied upon in checking the banks' accounts. It would be more advisable to have such persons than persons who would have a cursory examination of the books. Of course, in order to ensure more public confidence it may be suggested that a group of auditors may be selected by Government and from that group the banks may make a selection.

2750. *Chairman*: The question which I put to you just now does not contemplate that the present arrangements about audit should, in any way, be interfered with. The audit and examination of banks' accounts which I refer to in my question has to be in addition to the present audit?—That would lessen the responsibility of directors and auditors.

2751. This is something like providing additional safeguards in the interest of the investing public?—There is no necessity for such additional safeguards.

2752. *Mr. Chetty*: In the Madras presidency in very many parts we have got small joint stock banks each with paid-up capital of a lakh of rupees or under. They take deposits from the public, but such concerns

are not always run with proper care and attention. In their cases would not the system of examination of their books be useful?—So far as we know, their accounts are audited by auditors. They have their certificates. There is a board which gives them a diploma.

2753. Our experience is that in spite of the auditors holding diplomas there have been irregularities in the banks, which are not brought to the notice of the auditors. We have got practical experience of such cases. What do you say?—Perhaps, in their cases the auditors must be wanting in qualifications.

2754. Do you think that the responsibility placed on the auditor under the Indian Companies' Act and the certificate appended by him to the balance-sheet are enough to ensure satisfaction to the investing public?—Yes.

2755. *Mr. Manu Subedar*: Are you aware that in some cases of bank failures the auditors were well-known firms of auditors?—Yes. If there are cases of fraud, you cannot avoid them.

2756. You know that there is a usual form of audit which says that according to the information received from managers and directors the balance-sheet is correct. Do you think it is a satisfactory arrangement? —We know that banks' accounts are audited by local auditors or the auditors' representatives.

2757. But in some cases they are not audited. If so, would you recommend that the banks' accounts should be audited?—Yes, perhaps, if there is small volume of business, they do not get the accounts audited. We must look to the volume of business done and then impose this rule.

2758. Would you give the auditors any protection from removal by the directors?—I do not think this is in the hands of the directors. They have no voice. It is in the hands of the shareholders.

2759. Technically it is the shareholders' meeting which passes the resolution about the appointment of directors, but actually the appointment is not made according to their choice, as you say?—But now the shareholders are asserting their rights in every concern, whether banks, joint stock banks or industrial banks.

2760. We have been told by some witnesses that further safeguards should be provided in regard to the audit of banks. Have you anything else to say in connection with audit?—One question you asked me whether the banks' accounts should be audited to which I have replied in the affirmative.

2761. With regard to the checking of all securities, whether the securities are borrowed by the banks or not, you know what happened in the case of Shilotri Bank about the securities. The auditor did not know whether they were held by the bank. What is your suggestion?—If a man commits a fraud or a man cheats the auditor, we cannot help it. There is a criminal law which will protect them.

2762. *Mr. Buckley*: Do you not think that we should have two independent auditors, one appointed by the directors and one by the shareholders?—I do not think that the directors should be given any right in this matter. It is the right of the shareholders to appoint auditors.

2763. *Mr. Manu Subedar*: Would you go to the extent that Government should make a list of reputable auditors who, in their opinion, would be the best men?—Yes.

2764. Would you eliminate people without proper qualification but without Government selection?—Government must select the best auditors. I do not make it obligatory on any one to select any particular auditor or auditors.

2765. *Chairman*: You may be willing to restrict that right to the extent that the shareholders will only appoint auditors from a list prepared by Government?—I would not like to give any power to Government in the case of any business concerned.

2766. Therefore, you practically withdraw the suggestion you made before that the selection of auditors be made from the list prepared by Government. Is it not?—If Government are assisted in preparing the list of auditors by the non-official members, I have no objection. But I do not want it made by the executive officers.

2767. *Sir Hugh Cocke*: Would you suggest that these auditors should be split up into two classes?—No, a particular auditors' firm should be recommended and selected.

2768. Whether an auditor is qualified or not, if he is included in the list of selection by Government, would you object to it?—No, I have no objection if such a list is prepared with the consultation of non-official members.

2769. *Sir Purshotamdas Thakurdas*: You know what is known as outside audit that is carried out in Government departments. In the case of municipalities, Improvement Trust, etc., we have got this outside audit, and I know that you have a high opinion about this outside audit. Do you think, in view of the frauds which are taking place in various banking institutions, it will inspire greater confidence if Government employ an outside audit organization to audit banking accounts at its convenience and charge a fee?—I think I should approve of that suggestion.

2770. The auditors are of good standing and there is nobody who can challenge their statement. Bearing in mind the fact that according to the present audit the managing directors have succeeded in keeping back essential particulars or details from the auditors' knowledge, do you think that the employment of the audit organization, as I have suggested, will be a handicap or will it be an advantage to the institution?—No, it will be rather advantageous. That suggestion did not occur to me in the first instance.

2771. I want to make it quite clear. This audit organization will be employed by which means auditors will be entitled to go to a bank and ask for bank's books for examination and Government will charge some fee for this work. It is just as we have been doing in municipalities, Port Trust, Improvement Trust. It cannot do any harm?—No.

2772. *Mr. Ramadas Pantulu*: Do you think that the investing public in this country know the responsibility of an auditor? In other countries an auditor is responsible for any losses to the investors, if they are due to gross negligence of the auditor. Do you think the investing public in India are quite alive to their rights in this connection?—Yes, they have become alive to this question now. Of course, they were not in the past.

2773. Do you think there is a clear law about the responsibility of auditors, and if not, do you rely on the English law?—No.

2774. Do you think there should be any law in this country about the responsibility of auditors?—There is a section to this effect in the Indian Companies' Act.

2775. In spite of this are there not cases in which auditors were made liable for bad audit?—Yes.

2776. I think there were cases in Bombay?—Yes.

2777. Sir Purshotamdas told you about the audit organization of Government and he said that Government would not take any legal or moral responsibility on them. If that is so, do you think this will inspire confidence in public?—I think the use of this outside agency will be very rare; it is not necessary to have it.

2778. *Sir Purshotamdas Thakurdas*: No, I said that outside auditors might go and inspect a bank's books whenever they wanted?—I understood that it would be employed whenever an occasion arose.

2779. Such an occasion will arise when the mischief is done. The whole idea is to avoid such mischief being done and in order to effect this it is intended to have an additional audit by an auditor independent of Government. These outside auditors will be entitled to audit the books of the banks. If that is done, you have no objection. Have you?—Will they examine the books of the exchange banks also or only the Indian banks?

2780. Suppose it is for all the banks, then have you any objection?—No, if it is intended for all the banks including the exchange banks.

2781. *Mr. Ramadas Pantulu*: Will there not be any danger that the Indian banks may suffer from owing to the fact that some facilities in respect of audit are given to an European auditor interested in some foreign bank?—How long will Europeans have such influence in this country?

2782. As long as they have such influence?—I think their time is coming to an end. Those days have gone and better days will come for us.

2783. *Sir Hugh Cocke*: You say that such an audit should be provided for all the banks. Is it not?—Yes.

2784. *Chairman*: Your Chamber suggest that foreign banks should be required to take out a licence for being allowed to do business in this country and you also propose certain restrictions to be placed on these banks. Have you considered what the effect of these proposals would be on the facilities now available for financing the foreign trade of India?—We do not really understand how the foreign trade is at all helped by these Exchange Banks. Is it by purchasing our bills of lading when the goods are already on board the steamer that they are financing our exports?

2785. If I may say so, there are two sides to the transaction that you are referring to. They not only finance the importing merchants abroad but they also help our exporters in this country at least to some extent, even according to you?—The Exchange Banks in this country operate only for the benefit of their own Nationals who have trading relations with our country.

2786. My point is this. The Exchange Banks are at present financing the export and import trade of our country to some extent. If you

want to get rid of them, will there not be some diminution in the facilities that are now available to the country?—(Mr. Lalji Narainji). The facilities are to be valued not in money alone but in the general interests of the country. I will put before you one concrete instance of how the Exchange Banks are financing the foreign trade of this country. This is an incident which happened recently and this was decided by the Madras High Court. One of my relatives is a piecegoods merchant in Madras. He wanted to have dealings with a Japanese firm and purchase goods worth over a lakh of rupees. He opened a confirmed credit with the Yokohama Specie Bank. The bank said that they had very good reports about the standing of the firm but theirs being the first transaction they wanted that Rs. 30 thousand should be deposited. He agreed. The goods were ordered, but they arrived late. He said that since the goods arrived late he could not take delivery. The bank said that since he had paid for the same, he must take delivery of the same. He filed a suit in the High Court in connection with this transaction asking that his money might be returned. The Bank in the meantime filed a counter claim for Rs. 30,000 and odd towards the balance due on the sale price of the imported goods. In the case of the first suit the Court decreed it in favour of the plaintiff and this was confirmed on appeal on the ground that since the goods did not arrive in time he could not be forced to take delivery of the same. This decision was arrived at after 9 months. Later, the Bank was advised to withdraw their suit which was done. The Indian merchant also got a decree against the Japanese firm; while the Yokohama Specie Bank was found quite willing to help the foreign firm to get payment for the goods which the consignee was not bound to take the same bank was found unwilling to help the Indian Firm to get satisfaction for its decree against the Japanese firm although the latter's agent came to India and the Bank could have helped the Indian firm by helpful intervention if it had cared to do so. What I am driving at is only to show that these foreign exchange banks working in this country look to the interests of their own Nationals only. That is the position so far as the importing trade is concerned. Now, taking the case of the export trade, I might say that these banks are literally forcing these Indian exporters to insure their goods with the foreign insurance companies. I shall refer to a concrete case here as well. Messrs. Currimbhoy and Sons, one of the leading firms of this country, used to insure their exports with the Vulcan Insurance Company. In this case, the exchange Bank concerned was the Lloyds Bank. They said that they would place a limit of Rs. 4 lakhs as the maximum amount which could be insured with the Vulcan Insurance Company, because it was an Indian concern. In the same way I can give you several instances which have come to my knowledge. I might say that I know that even the firm of the Vice-Chairman of your Committee was not permitted to insure their goods with an Indian Insurance company. Now, when the exchange banks behave like this, will any Indian, much less your goodself, ever recommend that these Exchange Banks should operate in this country and say they are doing business for the good of this country? The method of dealings of these exchange banks with Indians in this country is worse than the worst bureaucrat's. In the matter of exports of our produce, the poor sowcars in our country are financing the movement of crops and it is only in the very last stage that the exchange banks come in. Do you call it the financing of foreign trade? They are simply taking away Rs. 89 crores of Indian deposits and are utilising

them to suit their own ends. If restrictions are placed on their operations in this country, our country will not suffer in any way. The 89 crores of rupees will be back again in the hands of our countrymen and the Reserve Bank or the Imperial Bank will be free then to finance the foreign trade of our country. It is only a bogey which is generally heard, 'who will do the exchange business if the foreign exchange banks go out of our country?' Just imagine how they are treating our own countrymen. They do not give a footing even to one Indian in their officer's grade, not even Mr. Pochkhanawala who was in the Chartered Bank for some time. India has been literally tied down by foreign exploitation through the three greatest links of trade and commerce, namely, Banking, Insurance and Shipping. Unless you take away at least one link from this chain there is not going to be any salvation for India. Unless a man is himself in business, he does not really know how it pinches. That is why we have suggested that their operations should be restricted in this country and that they should be asked to take out a licence. I am only developing the principle and it is for the Committee to arrive at detailed conclusions. We have to devise ways and means as to how we are to get our ideal. There is no use forming enquiry committees and commissions to enable Government to shelve their recommendations if not to their liking. It must be made plain to these exchange banks that they have no right to function in this country unless and until they adhere to our conditions and other stipulations not of the present British Government but of the Indian Government that will come into being very soon. They have for over 35 years now literally drained our country to meet their own selfish ends and those of their Nationals. Even though you are able to solve the difficulty of Indian banking, the shipping and insurance business will still remain to be mostly controlled by foreigners.

2787. *Chairman*: For my own part, I am much obliged to you for this full exposition of the difficulties arising out of the present situation with regard to the working of the foreign exchange banks. Am I to understand that you would rather put up with the temporary disability that might be occasioned by the foreign exchange banks ceasing to function in this country (if they so desired) until the gap was filled by Indian agencies including the Imperial Bank?—We do not think that there will be any disability at all, because the huge amounts of deposits that these exchange banks attract at present will be available for that purpose in Indian hands.

2788. I agree that Rs. 89 crores which are now in the hands of the foreign exchange banks will be available, but you agree that a machinery to utilise the same will have to be found out to properly utilise the same for the financing of India's foreign trade. In fact, one of your colleagues in another capacity as a banker of considerable experience in giving evidence before us told us that the difficulties in the way of Indian joint stock banks doing foreign exchange business cannot be removed by Government interference or legislation, but can only be solved with the co-operation of the foreign exchange banks. I am prepared to admit that the present arrangements for the financing of foreign trade result in a considerable amount of disabilities on the Indian exporter and importer. That is, however, a matter for separate consideration. But from the banking point of view, we have to face facts as they are. I find that

your proposal is to place some restrictions on the operations of these exchange banks. Perhaps, this may be a desirable proposal which I am not discussing at present, but the effect may be that the foreign exchange banks may refuse to operate under such conditions and may decide to withdraw their banking operations from this country, which will immediately create a hiatus. It is possible that you might say that we must put up with the inconvenience for some time until India builds up her own machinery for the financing of her foreign trade. May I know whether this is your attitude?—That position has not been fully considered by the Chamber, but I (Mr. Laljee Narainji) can tell you my own view. I do not agree with what you say that these exchange banks will withdraw from this country if some restrictions are placed on them, because there is such a keen competition in the business. You know businessmen are not at all sentimental. My proposal is, we are restricting their operations not because they are non-Indians but because we want to have a very fair competition. But, as you say, if they decide to withdraw from this country, India would certainly be prepared to sacrifice her interests temporarily.

2789. So is it your intention not to make the restrictions very rigid?—Yes. There is another point. From my latest experience I find that Europeans generally have now begun to realise that they do not want to rule India now but only want to trade with her as in the past.

2790. I am sorry to interrupt you. At the present moment I am thinking only of banking and not anything else. Do you not think that if the foreign exchange banks decide to withdraw from this country, our raw produce will rot?—Certainly not. There is at present a good deal of competition between the different countries of the world so that everybody wants to purchase Indian raw materials. My point is that we do not want these exchange banks to help our export trade with our own money.

2791. *Sir Purshotamdas Thakurdas*: You gave us certain details regarding the business of some of your relatives in Madras. Where can the Committee get fuller information?—I will send it.

Then kindly let us have the suit number and the copy of the affidavit or complaint.—I will give you all that information.

2792. *Chairman*: There is another point which arose out of the discussion. You said that nothing could be expected under the existing form of Government. Then does it follow that nothing ought to be done until there is a change in Government on the lines which you envisage?—I simply mentioned that as a possible difficulty.

2793. *Mr. Khaitan*: Are you not aware that in Calcutta, there are some buyers who manage to pay money in India; for instance, Bemis Brothers. Ralli Brothers and Volkart Brothers are other instances of firms which do not use exchange banks much for their import and export operations. Do you not think that foreign buyers would make their own arrangements if the exchange banks refused to operate in India?—Certainly.

2794. *Chairman*: You say, that the authority to issue, renew or cancel licenses should be vested in the Standing Finance Committee of the Government of India. (*a*) Are you referring to the Standing Finance Committee appointed by the Government of India from among the members of the

Legislative Assembly? (*b*) Are you aware that the functions of this body are purely advisory? (*c*) Are you also aware that the composition of this Committee is liable to be changed every year?—The constitution of the body we propose will have to be settled hereafter.

2795. You have suggested revised forms 'F' and 'G' in your memorandum. Is it your intention that these forms should apply both to Indian joint stock banks and foreign Exchange banks?—Yes.

2796. It has been suggested to us that form 'F' might be amended as shown in the copy which has been handed to you. Will you kindly give your views on the amendment suggested in the form? If you are not in a position to tell me now, that is, if it is necessary for you to consult your Committee, I should be quite glad to have your written answer later on. You have suggested certain amendments in the form which at present exists in the Indian Companies' Act. The difference between your form and the statutory form is a matter of detail. Now we have already received a form from the Institute of Accountants which is different from the form which you suggest. The difference is merely with regard to bad debts.

2797. So you still adhere to your form? You still think that it will be adequate to meet all requirements?—Yes. Our point is why should any distinction be made in the case of India; when the rest of the world follows the form we have recommended?

I have not much experience of that myself; perhaps Sir Hugh Cocke will pursue the matter at greater length.

2798. *Chairman*: You suggest that a bank should not be allowed to start business unless 25 per cent. of its subscribed capital has been paid up. Do you not consider it desirable to prescribe a minimum paid up capital in substitution of or in addition to the percentage limit of paid up capital suggested by you?—We have suggested about a lakh of rupees; not less than a lakh.

2799. Or not less than 25 per cent., whichever is higher?—No, not less than 25 per cent.

2800. It has been suggested to us that the certificate given by auditors should be more explicit as regards debts considered doubtful, the true market value of securities and the proper valuation of investments at the date of audit. Do you see any objection to this proposal?—I should like to know what exactly is meant by the words "more explicit". What is intended by these words?

(Here, the Chairman handed to the witnesses a written statement submitted by another witness who made the following observations):—

"Auditors' Report to the Members of the Barclay's Bank, Limited.

We have compared the above balance sheet with the balances on the books at the Head Office, and with the detailed returns from the Branches. We have verified the cash with the Bank of England the cash and Bills at the Head Office, the investments of the bank and the securities held against money at Call and short Notice. We have obtained all the information and explanations we have required; and we are of the opinion that the above balance sheet is properly drawn up so as to exhibit a true and correct view of the State of the bank's affairs according to the best of our information and explanations given to us and as shown by the books and returns of the bank".

2801. *Chairman*: Should you prefer to give a written opinion after mature consideration I will ask Secretary to send you the question and get a written answer from your Chamber.—All right.

Sir Hugh Cocke: I think, Sir, the whole difference is that the English certificate gives full details, while the Indian certificate does not.

2802. *Chairman*: Your Committee have expressed their opinion that banks should be protected against unjust attacks on their stability and suggest that before proceedings are instituted against a bank, the complainant should obtain a certificate from the Advocate General. On the other hand it has been stated by several witnesses, individuals as well as associations, that the best insurance against damaging criticism lies in a sound position and that they would therefore deprecate any interference by legislation in such matters other than that provided by the existing law. It has also been represented that in some cases where prosecutions have taken place many important facts have been brought to light. Will you favour us with your views on this aspect of the question?—Generally speaking, Sir, those who do banking business do not like at all that any publicity should be given with regard to doubtful affairs. In their opinion it is very harmful. I will give an instance. Some time ago there was some panic in the sugar market; only one firm failed. But because the market was going down, not only the Imperial Bank but all the banks stopped doing business with the whole of the sugar market.

I am here concerned with banks only?—Yes, Sir, I am coming to that aspect. I think any publicity without due care is injurious not only to the particular bank concerned but also to the entire mercantile community which may be depending on that bank. A sort of panic spreads as a result of false rumours which is very harmful. In Scotland there is a rule laying down that such complaints are first to go to the Advocate General. Another thing which not infrequently happens in India is that if a party is displeased with the whole Board, he will set up certain shareholders against the bank. Out of rivalry or malice they do things which are extremely harmful to the whole bank. Our point is that these things should not be encouraged. If an authority like the Advocate General in Scotland is provided, it will be very beneficial. We believe that that Advocate General will be very careful particularly where banking interests are concerned. We are further of opinion that the case should be conducted *in camera*. It is dangerous to drag big concerns to court on small pretexts or very flimsy charges.

2803. So you still adhere to your recommendation?—Yes. We recommend that the case should be conducted *in camera*.

2804. You state that the local Indian banks have been recently encouraging youngmen trained in local colleges to join their staff with a view to obtaining practical training. Will you kindly tell the Committee whether this training is confined to persons whom the banks proposed to take on their establishments or is it merely to enable them to sit for banking examinations?—For both the purposes.

2805. Will you kindly name for our information one or two banks which enable candidates to sit for banking examinations?—The Central Bank does it.

2806. That is probably the only bank which does it.—I remember that I recommended a man to the Imperial Bank three years ago and they gave him a chance to study.

2807. Will Mr. Pochkhanawala, who is here, kindly say whether he provides such facilities for candidates, and whether it is the practice of the Central Bank to take on youths and allow them facilities to get through their banking examinations even though the Central Bank may not afterwards be able to absorb them in their own organisation?—Yes.

2808. You state that there is no co-operation between indigenous joint stock banks and other banks in India. Can you tell the Committee why there is no co-operation and what can be done to secure such co-operation?—It is a very difficult question, Sir, to answer. I am not sure whether it will not again drag us into politics.

2809. Let us try to eschew politics.—There is no co-operation between the joint stock banks and the other banks; there cannot be, because of the dual interests everywhere. The clash is due to unavoidable circumstances.

2810. Is it the same reason which stands in the way of co-operation between the Imperial Bank which, I take it you will recognise, is really an Indian joint stock bank and other joint stock banks or is it because of the rigid rules under which the Imperial Bank has to act?—The constitution of the Imperial Bank is such that even the Imperial Bank is not in a position to help the other Indian joint stock banks.

2811. Are you referring to the legal constitution?—Yes.

2812. In answer to question 8 of the same Section you state that the principal reason why more capital is not invested in the expansion of the existing banks or the establishment of new banks is the want of adequate support by legislation against the flimsy and malicious attacks which are sometimes launched against banks. Can you tell the Committee whether these flimsy and malicious attacks have been of common occurrence or they have been only a special feature of recent years and only confined to one bank?—This has been a feature only of recent years. To give you an instance, only yesterday a bank employee (of the Bank of India) bought certain foreign goods from the cloth market; so the name of the bank is put on the list of institutions to be raided.

2813. Can that be stopped by legislation?—Legislation will never stop it.

2814. *Mr. Manu Subedar*: Mr. Narainjee, what else will stop it? (Laughter.)

2815. You refer to the benefit of free Government balances which the Imperial Bank enjoys. Are you aware of the services it renders in return? —I have not got figures with me to indicate the amount of advantage accruing to the Imperial Bank. But if they are receiving from the public as well as from Government nearly 25 crores, we do not think they are at any particular disadvantage.

2816. I am referring only to the benefit of free Government balances. Let us confine ourselves to that. Can you say whether the information in your possession leads you to the conclusion that the concessions which the Imperial Bank receives from Government are not counterbalanced by services which it renders in return to Government?—The services rendered bear a very little proportion to the advantages received.

2817. Has your Chamber ever tried to analyse the situation?—Yes, Sir, we have, and our analysis leads us to the conclusion that Government are getting very little compensation for the great advantages it has been giving to the Imperial Bank. Moreover, the Imperial Bank does not keep only

Government balances free of charge; under the Act certain balances are bound to be kept with the Imperial Bank, such as Charity balances or Trust moneys. These cannot be termed Government balances. They are a source of considerable income to the Imperial Bank and the service which they render in return is comparatively far less.

2818. But your Chamber never tried to assess it in rupees, annas and pies?—No, we never tried that.

2819. *Mr. Devadhar*: I should like to know, what is exactly intended to be secured by your Chamber's efforts towards the revival of the Shroff system in the interests of the agriculturists?—Let me make a distinction; the shroff should not be taken as a shroff alone, the sowcars in villages and towns may also be shroffs.

2820. You intend thereby to secure better service to agriculturists?—That is so.

2821. Will you please give us the varying rates of interest that are generally charged to the agriculturists by these small moneylenders?—From 12 to 25 per cent.

2822. You claim in your memorandum that the Shroff system would be the quickest as well as the most economic method of developing banking in the country?—Yes.

2823. But do you know that the rates of interest charged by co-operative institutions are smaller than those charged by the moneylenders?—I agree, but the difficulty is in regard to the forms and procedure of going to the co-operative bank which is not understood by the illiterate man.

2824. You mean it is not the quickest?—and not even the safest because you have certain restrictions, *e.g.*, the audit system and other procedure which may not be convenient.

2825. You think it is not necessary?—It is necessary. There is an advantage in the rate of interest, but if one goes for assistance to the co-operative bank, he has to pass through certain procedure.

2826. You mean to say it is not as quick as is claimed in the case of the Shroff system?—and not suitable to the agriculturist.

2827. With the spread of education and better understanding of the different processes, it can be done?—It is a very big 'if'. When are Government going to spare money for education? I do not want to bring in Government, but I want to say there is no money at present.

2828. Your Chamber is in favour of licensed warehouses being opened and operated upon. Would you have any objection to such business being managed co-operatively with some help by a Government Department?—I have no objection.

2829. In answer to Q. 8 of the Provincial Committee you complain of harassing and dishonest tactics practised by some traders by sheltering themselves as agriculturists and by taking advantage of the Deccan Agriculturists' Relief Act and ultimately propose that it should be repealed or modified with regard to certain sections. Can you give us some idea of the sections which you would like to be modified?—I cannot refer to the particular sections. I think you will agree that there are certain people who are not true agriculturists, but they take the advantage of being agriculturists and evade their other civil liabilities in other trades. If a man is doing cotton business and if there is a decree against him, he may have

properties which you cannot execute under the Deccan Agriculturists' Relief Act.

2830. What is the unwillingness on the part of the shroffs to adopt the cheque system due to?—You must imagine the small amounts of money they have to handle. Barring certain towns, they deal hardly in amounts larger than Rs. 20 or 30 and they prefer to keep it in cash.

2831. Can it be attributed to his not being in full sympathy with the principles of modern banking?—When he has nothing to eat, how can we speak of modern banking?

2832. We are talking about banking education being promoted vigorously. Do you think a man of status (not a small shroff) would be willing to employ these men when they are properly trained as bankers?—But they take the training themselves.

2833. Would you practise the same old methods or come into line with the modern advance which the science of banking is making?—The staff must be trained.

2834. *Mr. Ramdas Pantulu*: Do you think that where co-operative banks do exist and work well they can be used as media for financing agriculturists by the joint stock banks?—Yes, they can be.

2835. You said that co-operative banks could not lend as easily as the moneylender and that the formalities in the case of the moneylender are few so as to make money available easily and promptly to agriculturists. You think that business can be done by money-lenders better?—It is not only formalities, but finance. Co-operative banks can go to a certain extent; they have to provide and guard themselves against certain rules. The shroff or sowcar has only to guard against such exigencies as he thinks for himself with his limited means and he takes risks which co-operative banks may not take. That is why the shroff can be a better agency.

2836. The shroff or moneylender finances the agriculturist without due regard to the agriculturist's own benefit, *e.g.*, whether the money is required for productive purposes or not, whether it is really wanted or not, he lends money provided he has security. But a co-operative bank is expected to look into the policy and see that the money is really wanted. In every way it benefits the co-operator; therefore it is a better agency than the moneylender. While the lending by the moneylender has ruined the agriculturist, the moneylending through the co-operative agency has been to the economic benefit of the ryot. What do you say to this?—I think it is technically and theoretically quite right, but if we look at it from the practical point of view, human nature is human nature after all. The agriculturist may have his limited place. It may not be for the production of crops, but he wants certain things for which if he is not given facilities he runs into debt.

2837. With regard to the difficulty in obtaining finance, I shall tell you my experience as a co-operator. In every province arrangements are now made to finance agriculturists promptly by introducing the system of forecasting the requirements of a village. The village society then applies to the central bank for the money required for the whole of the village. Then the central bank takes a cash credit for the entire requirements and under this arrangement it does not take more than three days for any member to get money from the central bank. If the payment is made so

promptly as in 3 or 4 days, do you still think there are difficulties?—I do not follow the question exactly. Do you wish to advance on raw products before they are marketed?

2838. Our finance is both post-productive and pre-productive. For purposes of agriculture we give finance upon the security of properties and also of sureties. One member can stand surety for another. If there are 50 members in a village, each of them can be a surety for another. Hitherto you are right in saying that a man normally used to take 3 to 4 months to get what he wanted. But now under the arrangement I have described above, *viz.*, by the society forecasting the requirements of the whole village for a year we have facilitated the financing of money by making it available readily It is only operating partially, as the difficulty you mentioned does exist in many places. But supposing you were able to obtain money promptly and adequately, do you not think it is a better system?—A risk is run with a fall in prices. Suppose cotton was 300, when it has gone to 200, you hold the cotton on behalf of the agriculturist in spite of the fall of Rs. 100, or you provide that you sell it any time you like?

With regard to the co-operative arrangements, we are only doing commission business. The agriculturist suffers the loss?—The sowcar only looks to the market and adjusts himself, while the co-operative bank looks to its own liability. It does not want to do anything with unlimited liability as the sowcar does. That is why it is preferable to the agriculturist from his point of view.

2839. You say that the advantage is that the sowcar takes more risks?—Yes.

2840. Do you think it is beneficial in the interests of the ryot himself to borrow largely?—The needs of the Indian agriculturist are very little. He may incur a debt of Rs. 10 or so; his condition is such that I do not think he will borrow on a large scale.

2841. Supposing in a particular locality there was no branch of the Imperial Bank or of a joint stock bank, but there was a co-operative central bank, would you want the agency of a shroff even there?—I would not, if the co-operative agency can meet the wants of the ryot.

2842. Is there a great deal of objection to co-operative banks discounting hundis? To a small extent it is done in Bombay and Madras by provincial banks.—These questions are hypothetical. Up to the present moment the working of the co-operative banks is not very encouraging; that is why my Chamber has not been supporting their operations. As you say, there have been many improvements lately, it may be that this machine may work well. It depends upon the education of the people.

2843. Their business methods will improve as education becomes more widespread?—Yes.

2844. With regard to debentures of industrial banks, do you think that if Government guarantee interest, the debentures will become more popular in the market than otherwise?—It cannot be said, it may be the case.

2845. At present, are long-term debentures popular in the market?—Not very popular. Looking to the present policy of Government, how can anybody like to have debentures in preference to treasury bills? Why should a man go for long-term loans when he can get 6 per cent. easily.

2846. Joint Stock Banks are not quite ready to advance against such debentures?—Certainly they want to keep their position as liquid as possible.

2847. With regard to the question of legal protection, I want to tell you exactly what the position is. You said you would be satisfied if the enquiry is held *in camera*. As a matter of fact, under the Criminal Procedure Code, the magistrate has the discretion not to issue processes at once, but to make a preliminary enquiry or investigation, either through a police officer or a subordinate magistrate. The words used in the section are 'investigation or enquiry' and they are necessarily not public. The trial is public, but the investigation or enquiry should be confidential and he has the discretion to hold it *in camera*. Are you satisfied with this discretion or do you want to take away this discretion and make it obligatory on the magistrate to proceed in a particular manner?—I would like to take away the discretion and I would suggest that it should be obligatory.

2848. There may be delay in launching prosecution and there may be many cases in which the magistrate may want to take prompt action to see that the defaulting bank does not tamper with public funds. The money may disappear, the man might bolt, the securities may disappear if immediate steps are not taken which can only be done by a magistrate in his judicial capacity. Therefore if you take away his discretion, there may be great hardship resulting to the public.—Legal brains can find out some method for expediting matters. From our experience of the past we can only say that no such complaints have been made.

2849. You are thinking of particular classes of offences arising out of balance sheets, etc., and some offences under the Indian Companies' Act. You are not thinking of cases of embezzlement, misappropriation or frauds?—No, they can be dealt with under the ordinary law.

2850. So you want to confine your statement to a particular class of offences, more or less of a technical character.—Yes, not of a criminal character.

2851. *Mr. Shanmukham Chetty*: In your memorandum you have drawn the attention of the Committee to what you call four cardinal principles and the third of these is that indigenous insurance business should be developed and encouraged as much as possible. Do you consider insurance is absolutely connected with banking?—Yes.

2852. That is to say, you consider that insurance is a form of mobilising the savings of the people?—Certainly it is.

2853. It is from that point of view therefore that insurance business must form an essential part of the banking concern of a country?—I have referred to this question very lengthily in my speech at the Federation at which the Chairman and Sir George Rainy were present. If you would like me to send you a copy of that speech, I shall do so. India has not been able to mobilise capital as other countries have been through their own agencies of insurance.

2854. With regard to the relation between fire insurance and banking concerns, you said that certain banks for instance insist that fire insurance must be effected through a particular fire insurance company?—Yes.

2855. Is it your experience that even the Imperial Bank insists on any such condition?—No. The Imperial Bank has not only taken the agencies of Indian insurance companies, but now they have been trying to meet

Indian insurance companies as far as possible. I can give you my own experience. I started my insurance company in 1918. When Sir Narcot Warren retired two years back, we were successful in explaining to him after putting all our cards on the table and showing how we were working our limits, our retentions, our securities, etc. We have been able to convince the Imperial Bank to such extent that they are now helping the Indian insurance companies. They have gone so far as to have accepted also our agency in Madras.

2856. So the Imperial Bank is now encouraging Indian insurance companies.—I would suggest that it is the duty of the Imperial Bank to become agents of Indian insurance companies. They should not become agents of foreign insurance companies just as foreign banks are not agents of Indian insurance companies.

2857. So you think that some provision ought to be made by which the Imperial Bank ought to be compelled to take up the insurance of only Indian insurance companies?—Yes and thereby assist in mobilising capital in India. You will see that every year we are exporting capital in the form of insurance to the extent of nearly 2 to 3 crores instead of encouraging the growth of Indian insurance companies.

2858. Have you come across cases in which bank managers and bank agents are acting in their personal capacity as sub-agents of insurance companies?—Yes, even the Imperial Bank's agents are now agents of foreign insurance companies.

2859. Is that practice still continuing in the Imperial Bank?—It is in certain places.

2860. Where such practice exists and where the agent of the Imperial Bank happens to be a sub-agent of a foreign insurance company, he naturally tries to force the borrower to effect the insurance?—It is voluntary.

2861. *Sir Purshotamdas Thakurdas*: You are taking it for granted that the commission goes to him?—I am not taking it for granted; that is my practical experience.

2862. Otherwise, the officer in charge does not benefit?—The officer-in-charge does benefit. If you will see the balance sheets of insurance companies, you will find that what are shown as expenses are discounts and extra management expenses. The latter go as extra remuneration.

2863. Illicitly?—Whatever you may call it.

2864. *Mr. Shanmukham Chetty*: Therefore, where the bank agent happens in his personal capacity to be a sub-agent of an insurance company, even without his prompting the borrower, just to please the agent and get facilities, he effects the insurance through that particular company?—Yes.

2865. You think, therefore, that it is very essential that banks must have a very strict rule that their agents and managers should not be directly concerned with insurance companies?—If they are concerned at all, it should be with Indian Insurance companies only. In foreign countries banks and insurance companies work hand in hand; it is absolutely essential. You will never find a bank without an insurance agency.

2866. I heard that some time back the Imperial Bank made a rule that any commission obtained through the agency of an insurance company

must be credited to the bank's account.—But that rule refers to the scheduled discount. There are things over and above the scheduled discount, *e.g.*, remuneration per month, remuneration for assessing claims, etc., which you cannot deny. These are all trade secrets, but they are open secrets.

2867. Therefore, the real object of that rule of the Imperial Bank is being evaded by this secret commission or whatever you may call which the agents still continue to get?—Yes.

2868. And you think the agents of the Imperial Bank still continue to get what you call this illicit commission?—I know they are getting it.

2869. *Mr. Lamond*: Can you give us an instance?—I would not like to name any instance directly, though I know that it is taking place.

2870. You are making a definite statement which is against one of the rules of the Bank. You can give us the information at least confidentially?—I am sorry I cannot give the information.

2871. *Mr. Manu Subedar*: Could you give a case without mentioning the name of the place or the name of the man concerned?—That does not help the Committee.

Chairman: Either the Committee has to accept the statement made by the witness or not. The witness refused to disclose even confidentially the details of the allegation which he has made. The Committee regret they are unable to pursue the matter.

2872. *Mr. Shanmukham Chetty*: Speaking about the industrial bank, you say that it is not intended that the Corporation should find the whole finance for either fixed capital expenditure or for working capital, nor that it should finance industries such as the cotton textile and the jute industry which are already existing in the country. You mean to say that it must be made a principle of the working of this industrial corporation that it should not finance well established industries.—The suggestion is that all industries should be encouraged, whether new or old.

2873. *Mr. Chetty*: Do you not think that in certain cases it is very important from the national point of view to make the existing national industries live and not to allow them to die?—Yes.

2874. Would there be a bar to the old industries according to your statement in the memorandum?—No.

2875. If that is so, your statement is to be taken as modified?—No, it should not be.

2876. You suggest in your memorandum that more encouragement should be given to the new industries?—Yes, but I have also suggested that an advancement should be made in the old industries also.

Sir Hugh Cocke: In the next sentence they say so.

2877. *Mr. Khaitan*: The Chairman asked you several questions about your recommendation that foreign banks should be converted into companies with rupee capital with majority of Indian directors. You gave several reasons for this view. Was there any particular case in your mind? Is your recommendation also intended for the security of Indian depositors? Take an instance of the Bank of Taiwan which failed. As there was no regulation prevalent in India the Bank of Taiwan removed all its resources to Japan. In such a case the Indian depositors would not be able to get

anything. Was that case in your mind?—Protection to Indian depositors is one of my reasons.

2878. Do you think that the Indian depositors can be properly protected if the foreign banks that want to operate in India would register themselves as an Indian Company?—Yes.

2879. Do you say that such a bank would come under the Indian Companies' Act and that the resources would be available to the Indian depositors?—Yes.

2880. *Chairman*: It is not really fair to do so. Because that can be safeguarded by other means. Is it not?—Yes.

2881. *Mr. Khaitan*: But that is one of the points which is in your mind?—Yes.

2882. You want certain restrictions to be placed on the business of foreign banks. You have not given details thereof. Would you recommend, as many of the other witnesses have done, that foreign exchange banks should not be allowed to receive deposits in this country?—Yes. I agree with the suggestion. But I do not want to make that a main point, because I have suggested another point which is to give licenses to these banks and they should be converted into rupee companies if such an occasion arises.

2883. *Chairman*: I understand that you do not want to make restrictions rigid. As a matter of fact to convert the banks into rupee capital is not part of the conditions you refer to. In answer to my question you stated that the rupee capital etc., is an ideal which you hope to attain when the political conditions change. But you did not make that part of restrictions rigid. You also said that it was not the intention of your committee to impose any rigid conditions in connection with the licenses. Is it not?—Yes. By 'rigid' I mean impossible conditions.

2884. You mean licenses should not be issued with impossible conditions?—Yes. Until we get control over the banks, there should be some protection to depositors.

2885. From the point of view of banks, it may be an unreasonable condition. To safeguard the interests of the depositors several other suggestions have been made by you. And it is not necessary to stop foreign banks from receiving deposits to secure that object. Is it your object?—Yes.

2886. *Mr. Khaitan*: You say an "industrial corporation" must not be allowed to lend more than 10 per cent. of its capital to a particular industry. In this do you include reserve fund also or only the capital?—Capital and Reserve fund, both.

2887. You also say "Not more than 10 per cent. of its capital should be allowed to be lent to a particular division of a province." You know there is more industrial development in certain divisions and in the others there is less. Would you not permit of this rigid condition that you try to impose being removed and more discretion being given to industries?—It is a matter subject to adjustment. We are not particular about that. Our idea is that we want to restrict our risk to 10 per cent. The whole idea is that we want all the parts of the country should get the benefit of these loans.

2888. You mean to say that your conditions should not be rigidly enforced. It is a crude idea. Is it not?—Yes.

2889. The Chairman put you a question asking whether you are aware of the services the Imperial Bank renders in return for the benefit of free Government balances which it enjoys. Do you know the reason or reasons why a restriction was imposed on the Imperial Bank against doing exchange business? A Manager of a British exchange bank suggested the other day that as the Imperial Bank enjoys the benefit of free Government balances, it should not be allowed to compete with exchange banks in exchange business. Is that also your idea?—I do not think that question arises from the question of the Chairman.

2890. *Chairman*: I referred only to the free balances and the witness said that it was a considerable advantage. This is an advantage it gets. Mr. Khaitan is asking quite a different matter based on that question?—I have no objection to reply to that question. I think it is most unfair that the Imperial Bank should be prevented from competing with these heaven-born exchange banks.

2891. *Mr. Buckley*: Are you aware that at the time of the passing of the Imperial Bank Act the balances of the foreign exchange banks with the Imperial Bank were three times the balances of Government and do you not think, therefore, that that in itself was a good reason for the exchange banks to say to Government that they did not think it fair that the Imperial Bank should be allowed to do exchange business with their balances and that if the Imperial Bank was allowed to do so, they would withdraw their balances?—Was it a condition that Government set that the Imperial Bank should not be allowed to do exchange business as the exchange banks were going to lodge their balances three times the balances of Government?—May I know when the balances of these banks were three times those of Government?

2892. I do not remember the exact time, but at a certain time the exchange banks' balances were three times the balances of Government?—At that psychological moment it may have happened.

2893. That is one of the reasons, the other reason was that the Imperial Bank was subsidised by Government whereas the other exchange banks were not subsidised. Do you not think that was a very good reason?—I do not think there was any reason for them to do so, unless there was a condition that exchange banks would be agreeable to keep their balances with the Imperial Bank three times the balances of Government. At the psychological moment it might have happened that these exchange banks had their balances three times the Government balances with the Imperial Bank. These banks are very clever and they know how to do window-dressing. I think this was only a friendly arrangement between themselves. India feels very much that their banking is in the hands of non-Indians, because banking is the life of the country. I find that these exchange banks are trading on Indian deposits.

2894. *Chairman*: It seems to me that there is window-dressing all round. We have heard about one class of window-dressing to-day and we heard of another class of window-dressing the other day.

2895. *Mr. Ramdas Pantulu*: (to Mr. Buckley) May I know what is the balance of exchange banks to-day with the Imperial Bank?

Chairman: You cannot put a question to Mr. Buckley. That we shall see among ourselves afterwards.

2896. *Mr. Buckley*: Do you suggest that the exchange banks did window-dressing at a particular time?—I do not suggest it.

2897. You stated that if India could be rid of the foreign exchange banks and the facilities now available for financing the foreign trade of India were withdrawn, the foreign buyers would manage somehow or other to buy Indian products. If that is so, how would you benefit?—Let me correct this. You have misunderstood me. We do not want to get rid of the exchange banks, but we want to get rid of the undue control that these exchange banks are having.

2898. *Mr. Manu Subedar*: I was interested to hear that you have placed with the Hongkong Bank a certain amount of deposit with the idea not only that it would be safe but also that the bank should accept the policy of the Insurance company. Would they be receiving large amounts of deposits from other companies also?—Yes, if there are more Insurance companies, they would.

2899. Would the deposits of exchange banks arise from other various classes of people, not merely for safe custody, but for the facilities the people would get for their business?—Yes, because these banks have the monopoly of Indian trade which they now enjoy.

2900. So the merchants get certain facilities from the exchange banks if they deposit their money?—We must have certain amount of deposits and then only we can get the facilities.

2901. For these various business considerations and not exactly for interest, that we have been told the exchange banks have been able to attract Indian deposits at cheaper rates. So, do you suggest that it is not because of the greater resources or the greater credit but because of the indirect advantage the depositors get from them?—It is one of the reasons. But our main reason is that they have got big resources.

2902. The depositors would accept ½ per cent. lower rate in order to get other benefits. Is it not?—It may be due to both. Of course, mainly the depositors go there due to the influence they possess in monopolising business.

2903. You suggested that the benefit of business or foreign trade goes to the people who are non-Indians. Is it not?—Yes.

2904. Then, the use of these benefits is made for the persons who are not Indians. Do you suggest that?—I think you are referring to the answer we gave to the Chairman. The Chairman suggested that if the foreign banks were done away with, the export business would suffer and we said that the export business was not done by Indians on a large scale and so, it would not harm Indians.

2905. All these deposits according to you are Indian moneys. It is helping a certain class of traders in this country and that class of traders according to you is non-Indian. Because Indians are not encouraged in this respect, you suggest that you want to control your own savings yourselves. So that reasonable facilities will be given to Indian and their share in foreign trade may increase. Is it so?—Yes.

2906. As the exchange banks do not give adequate facilities, you suggest you will get them registered under rupee capital and also have licenses for their business. Would you make them work under Indian law and under Indian control?—Certainly Indian directors and Indian shareholders.

2907. Then, they are no longer the same bodies. You are suggesting a remedy for starting exchange banks, but you have no arrangements for the existing exchange banks. What do you say to this?—It is their choice. If they want to do business, let them do so under a license.

2908. So long as the present exchange banks are not stopped from taking deposits, it is not possible for new exchange banks to come into existence?—Just as in America foreign banks are not allowed to accept deposits, it should be done here and that would solve the whole question. You may give certain concessions to them, but they should not compete with the Indian banks.

2909. Do you say that a restriction should be put on the exchange banks whereby they cannot accept deposits?—You cannot restrict any man from accepting deposits. If they refuse to do business as is suggested, then this will be the last resort.

Chairman: His idea is that this restriction should not be introduced immediately. It should be given effect to as the last resort. What he wants is that the disability under which the Indian trader now labours owing to the differential treatment should be removed. He suggests that in the first instance these foreign banks should work under a license and if it is found that they are not giving proper treatment to the Indian traders, then he suggests, as the last resort, his idea of rupee capital, etc.

2910. *Mr. Manu Subedar*: He definitely said that if necessary he would introduce the restriction regarding accepting deposits. May I know under what conditions?—If they do not accept the terms of the license. They should do business in this country under the terms of the license, which terms should be fixed by the Finance Committee composed of non-official members.

2911. What is your object?—My object is that they should not compete with Indian trade; they should not compete with any Indian export business. I find they are very hostile to Indian interests. I have personal experience of this fact. I have been doing insurance business with a foreign insurance company. That company has the same capital as mine and in the same year both the insurance companies were started. The same exchange bank which refused to give us facilities gave that foreign insurance company the best facilities. We have to find great difficulty in getting these facilities, simply because we are Indians. Such a hostile attitude to the Indian enterprises should not be allowed. If as businessmen they like to live here, we do not want them to go away from this country.

I do not understand how a license will bring about this attitude on the part of the foreign banks?

Chairman: You know there are several clauses. There is, what we call, legislative and restrictive clauses. If we consider that a certain department is giving excessive benefits to a certain trade, you license them. In that way, their attitude is checked.

2912. *Mr. Manu Subedar*: What possible terms could you lay down to change the attitude of these people against Indians?—I have not considered the terms of license. If your Committee wants it, I shall consult my Chamber and then let you have the terms of license.

2913. You say that if the result was not secured by the method of license, then these other restrictions are to be put into effect. Is it not?—Yes.

2914. Who will draw up the terms of the license, this Committee or the Assembly?—I have suggested the Finance Committee composed of non-official members.

2915. After issuing the license, etc., as an initial step, if there is no change of attitude on their part, then who will decide that the second suggestion of yours should be brought into force?—Time will tell us what we have to do. Government will discuss the matter later and they will decide what course should be followed. There should be another committee, if necessary, and if the committee agrees with the views expressed by Government, they should take further steps.

2916. *Dr. Hyder*: Would I be correct in assuming that you are for a policy of live and let live if the foreign exchange banks are amenable to sweet reasonableness?—Yes.

2917. According to the memorandum which you furnished to the Provincial Banking Committee, taking the unit of the population at one lakh, you will probably require about 3,000 branches of the Imperial Bank before the country is amply served with banking facilities. Take the case of indigenous bankers and shroffs whom you want to act as agents of the Imperial Bank. Would you have one such shroff for every village, and you know there are about 700,000 villages in India?—One shroff may be sufficient for even a hundred villages. All depends upon the requirements of the locality and the population.

2918. To begin with would you recommend the appointment of shroffs in bigger centres of the country rather than the mofussil?—Bigger centres have already got branches of the Imperial Bank and so there is no need for these shroffs there.

2919. Then if you want to have these recognised shroffs in mofussil places, would there not be some difficulty in making the selection?—There might be some difficulty, but this could be overcome.

2920. With regard to the shares of the foreign exchange banks operating in this country, do you know whether any of them are being held by Indians?—There may be a few, but even if there are, those Indians have no voice in the management of the concerns as they would be entirely in the hands of the bank managers.

2921. Would it be in accord with your views, if for instance, this Committee recommended some sort of an Advisory Body to bring to bear the spirit of sweet reasonableness into these exchange banks?—We do not believe in any advisory or illusory bodies or anything of the sort. We want the Committee to take definite action and suggest that such and such restrictions should be placed on the operations of the Exchange Banks.

2922. I mean an advisory body brought under the legislation?—I do not like the idea at all. The Committee must come to clear conclusions for the betterment of the country instead of thinking of advisory bodies whose recommendations are not final.

2923. You say that in the Reserve Bank the principal Indian States might also deposit their surplus with it. How can you force the Indian States to make their deposits in the Reserve Bank?—I say it because

Government have a voice in the conduct of the affairs of the Indian States on occasions such as occasions when the Government act for the State during administration times.

2924. *Mr. Lamond*: You stated that importers in other countries come to India to purchase Indian produce and that they are assisted by the banks of their respective countries established in India. Do you think Indian traders would open branches in foreign countries and export Indian produce for sale if suitable Indian banking facilities were available?—Indian traders would certainly open branches in foreign countries if suitable banking facilities were available in this country.

2925. *Sir Hugh Cocke*: With regard to form F, may I know whether you consider it advisable for any bank to have an undisclosed or secret reserve?—Yes, the 'big five' in India are already having it.

2926. You know it is extremely difficult to arrive at a conclusion under what heading you will include this item in the balance sheet. The current practice is to include the amount under current and deposit accounts. Would you provide for a contingency fund and show it in the balance sheet as a separate item?—We have no objection to the practice followed by the 'big five' at present being followed by our banks.

2927. Then as regards item No. 7 in form F with regard to bad and doubtful debts, you say that you are not in favour of the change made by the Government of India as a result of the Bombay High Court's ruling in the matter. Is that so?—No, we do not agree to the change now made by the Government of India and we would adhere to the original form 'F'.

2928. *Mr. Mukhtar Singh*: You complained that non-Indian banks are financing non-Indians to trade in the interior of the country working detrimentally to the interests of the Indian merchants?—Yes, the foreign exchange banks naturally support their own Nationals.

2929. So then, you think that because foreigners come to India, go into the interior and purchase their own goods and because the foreign banks finance them, you think they are depriving Indian shroffs of their legitimate business?—Yes.

2930. You admit there is competition between Indian merchants and these foreign agents who combine with the foreign banks and monopolise the internal trade of the country. How would you then restrict their operations in the interior?—These are matters of detail. In the licence these conditions could be stipulated.

2931. You said that the interest charged by the moneylenders is from 12 to 24 per cent. in regard to loans to agriculturists. Do you consider that there is any industry, much less agriculture, which can stand such a high rate?—No.

2932. Then how would you bring down the interest rates?—The business dealings of the petty moneylendesr are of such a nature that no joint-stock bank could accept them, in other words, the money dealings of these moneylenders are very risky as in several instances they are unable to realise their dues.

2933. *Sir Purshotamdas Thakurdas*: In form 'F' you say that land and buildings and bank premises may be valued at cost. Would you provide for their depreciation being written off every year?—Yes, and they may be assessed at the current market value.

2934. So then you would show in the balance sheet the depreciation allowed in previous years and the depreciation made in the current year separately in regard to this?—Yes.

2935. Now with regard to Mr. Mukhtar Singh's question regarding the high rates of interest charged by the moneylenders, is it your experience that people with any reasonable credit resort to such moneylenders?—Nobody with any reasonable credit need go to these moneylenders.

2936. And then your point is that but for these moneylenders, people who have no credit, will practically starve?—Yes.

2937. You said that the Indian shareholders of foreign banks were under the influence of the managers of the respective banks. Supposing a man owns 5,000 shares in a bank. Then do you mean to say that he will be under the control of the bank manager and that he will have to act according to his dictates?—What I mean is, if he is a borrower of the bank as well.

2938. So then, you agree that he need not be under the control of the bank manager so long as he is not a borrower from the bank?—That is so.

2939. *Sir Purshotamdas Thakurdas*: I wish to know from you whether, with your wide experience, you could tell us if this feeling is at all justified or whether there is anything behind these apparently large-looking figures of deposits with exchange banks?—I think that both the interest rates and the quantity of deposits are due to the position of monopoly which the exchange banks have been enjoying; though I know of instances where a number of our Indian importers and exporters do business direct and are thus free from the obligation to deposit any money in advance with any of the exchange banks.

2940. Do I take it that in order to be able to import goods and in order to have bills drawn, the importer has invariably got to deposit money with exchange banks?—Certainly.

2941. May I ask, Mr. Karanjia, one question: you are a very big importer of large goods from foreign countries, China, Japan, France, etc. Is that not so?—Yes.

2942. You have travelled widely?—Yes.

2943. Is it your experience that importers in these countries have to give similar deposits to these exchange banks?—The thing is that from recognised constituents, such deposits are not demanded, but they have to open their current and other accounts with those banks. Supposing I have got dealings with foreign banks in Bombay, with those banks I have to keep my account; and if I were to open a current account, I should have to place with them at least five to ten thousand rupees. Thus the banks are aware of the amount of business I have done in the course of the year through them. Thus in the case of recognised customers, they do not insist on any deposits being placed with them.

2044. In order to get good references from the exchange banks, have you got to do what I may term as 'window-dressing'?—I do not agree to the use of that term.

2945. Before you can command credit with any of the exchange banks, you have to open some account with them, you have got to keep five or ten thousand rupees in the current account. Is that not so?—We have to open accounts with them in order to show our stability.

2946. Is this the common practice with importers in all foreign countries?—In Japan and also in China we have to keep accounts.

2947. Current Accounts or bill account?—We generally keep current accounts with them merely to show our confidence in them.

2948. So it is not compulsory?—But this has been recognised as a more or less established practice.

2949. Do you think this same business would go to any other bank of whatever nationality which did exchange business?—Certainly.

2950. If an Indian bank did exchange business and had to open credits for import and credits for export, do you think it would command the same confidence?—Certainly.

2951. It has been said that in order to get good references from banks you have got to deposit some amount with the banks. Is that so?—Yes, if those constituents are not recognised constituents of the bank. Supposing a new customer goes to them and wants to open credit for import bills or export bills, then naturally they will insist on his depositing certain amount with them.

2952. If the man is not known to the banks?—Yes.

2953. For how many years do you have to deposit money with these banks before they recognise you as a regular customer?—My firm has been dealing with exchange banks for years, so I do not have to deposit a single pie with them.

2954. *Mr. Buckley*: If I tell you that a very very small portion of the exchange bank deposits come to the banks in the way you have described, I take it you will agree?—I do not know.

I mean ordinary fixed deposits. I should be very pleased to supply this Committee with the amount of those fixed deposits in my bank in Calcutta and Bombay. Nearly 75 crores come to us altogether in that particular way—Part of that is on current account and part may be there for the purpose of maintaining confidence? If I have confidence in foreign exchange banks, I may be induced to deposit money without being compelled to do so.

TENTH DAY.

Monday, the 1st September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, Kt., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Mr. W. LAMOND.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. G. K. DEVADHAR, C.I.E.
Sir HUGH COCKE, Kt.	Mr. JAMAL MAHOMED.
Dr. L. K. HYDER.	Seth HAJI ABDOOLA HAROON.
Mr. V. RAMADAS PANTULU.	

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Messrs. G. Cook and A. R. Ingram, representatives of the **Exchange Banks' Association**, were examined.

2955. *Chairman*: You are the representatives of the Exchange Banks Association?—Yes.

2956. Can you tell the Committee what banks are members of it, and what are the objects of the Association?—The banks represented are:—

The Chartered Bank of India, Ltd.,
The National Bank of India, Ltd.,
The Hongkong and Shanghai Banking Corporation,
The Comptoir National D'Escompte de Paris,
The Mercantile Bank of India, Ltd.,
The Yokohama Specie Bank, Ltd.,
The Eastern Bank, Limited,
The Lloyds Bank, Ltd.
The P. & O. Banking Corporation, Ltd.,
The Netherlands Trading Society,
The Netherlands India Commercial Bank,
The Bank of Taiwan, Ltd.,
The Sumitomo Bank, Ltd.,
The Mitsui Bank, Ltd.,
The National City Bank, and
The Imperial Bank of Persia.

2957. Would any bank, Indian or foreign, be eligible for membership?—Yes, provided they are Exchange banks and are willing to subscribe to the rules and regulations of the Association.

2958. Has any Indian bank doing foreign business been refused membership?—Not that I know of.

2959. Would the members of your Association restrict their business to members of any particular Exchange Brokers' Association?—We restrict our business to brokers who are in the Association, both European and Indian, so far as Calcutta is concerned. There is no Indian Brokers' Association in Bombay.

2960. Are Indian brokers also members of the European Exchange Brokers' Association?—No, they were asked on several occasions to form an Association of their own.

2961. Is the result of that, that foreign Exchange Banks do not do any business with Indian brokers?—Not at all.

2962. Therefore, in Calcutta the business is restricted to those brokers, European or Indian, who are members of their respective Associations. In Bombay there is no such limitation?—Yes. The Indian brokers in Bombay are, what they call, deposit brokers and they work on guarantee up to a certain point. They are limited in number to 25, simply because there are too many of them, but they have no Association.

2963. Would you kindly explain what you mean by "deposit brokers and working on guarantee"?—The deposit is the guarantee. They guarantee themselves for a certain amount of money which is held for the ratification of contracts.

2964. In the case of brokers who are members of the European Association, there is no such condition?—There is a deposit for them also.

2965. So both the European brokers and the Indian brokers in Bombay work on the deposit system?—Yes.

2966. Have you got the deposit arrangement in Calcutta also?—No.

2967. Have you any knowledge of the conditions in this respect which prevail in Madras, Rangoon or Karachi?—I have none. So far as Rangoon is concerned, there is no Association and there is nothing in the nature of a deposit for the ratification of contracts.

2968. Could you tell us what the amount of the deposit is in Bombay?—Rs. 10,000 and they have the privilege of depositing it in Government securities.

2969. *Sir Purshotamdas Thakurdas*: When you say that you have 25 brokers in Bombay and that you accept business from anybody else, you mean that other Indian brokers are allowed to do exchange business without being members of the Association?—Not with the members of the Association.

2970. Therefore, as far as the Indians are concerned, only such Indian brokers can do exchange business with the Association as are on your approved lists?—Yes.

2971. You have an approved list and you have an Association for European brokers?—Yes.

2972. Although you do business with other Indian brokers, it is restricted to money business, share broking, etc.?—Yes.

2973. And exchange business is strictly limited to those who are on your approved list?—Yes.

2974. What is the number approximately to-day?—There are 25 Indian firms employing 71 men and there are 3 European firms employing 13 men.

2975. When you say "employing men", are you referring to the staff?—Yes, to the staff who call on the banks.

2976. Do I understand that you would not see anybody except these 71 men belonging to 25 firms?—Yes, they are the people who are nominated by their firms as representatives.

2977. And the 3 European brokers have 13 men in all?—Yes.

2978. Which means that you have to see in all at the most 84 men belonging to 28 firms?—Yes.

2979. *Seth Haji Abdoola Haroon*: In Karachi no Exchange bank is allowed to do exchange business with any Indian broker?—I have no knowledge.

2980. *Chairman*: We shall be obliged if you will kindly supply us with the required information in regard to the other big ports, namely Madras and Karachi.

2981. *Sir Purshotamdas Thakurdas*: I suggest, if Mr. Cook does not mind, that he should let us have information also about Lahore and Delhi.—In Lahore there is not enough exchange business to employ any brokers at all.

2982. Therefore if I want to sell at this place, I have to go straight to the bank?—Yes.

2983. Does it hold good in Amritsar?—There is no broker in Amritsar.

2984. In Delhi?—I cannot say about Delhi.

2985. *Mr. Lamond*: The same applies to Delhi.

2986. *Mr. Manu Subedar*: Do you know whether these 25 Indians who are doing exchange business as brokers are all members of the Bombay Stock Exchange?—I do not.

2987. When did the Association of European brokers come into existence?—It was formed into a European Association as far back as 1903.

2988. And it consisted of three members?—There has been more. The members who constitute the Association at the present time and who undertake to act in accordance with its regulations are:—Messrs. R. Barlow, E. L. Barton, R. Baumbach, T. Bromley, W. Bulloch, F. Croft, H. E. John, R. Kennedy, W. Lang, R. N. Mant, F. Masotti, G. W. Moir; D. Morris, R. Reeve, G. K. Remington, J. W. Rice, H. S. Symons and C. L. Weber. Whether all these men belong to the 3 existing firms, I do not know.

2989. A claim has been made by the Bombay Stock Exchange that they were entitled to do the business of exchange brokers in Bombay and that for a considerable time all people doing exchange and other broker business in Bombay were members of the Stock Exchange. It has been pointed out by the Stock Exchange in their evidence before the Stock Exchange

Enquiry Committee that this valuable privilege was taken away by the Exchange banks arbitrarily and that this enabled a new Exchange Association of European brokers being set up without reference to them. Is that so?—This Association, so far as I know, was formed at a time when exchange brokerage was written down from an eighth to a sixteenth. It was not a very valuable connection. These people had their income reduced by 50 per cent. They formed an Association to protect themselves against the possibility of the same thing happening again.

2990. Did the Exchange Banks Association have any communication with the Bombay Stock Exchange during the last few years regarding a complaint that the Exchange brokers tickets were given out without reference to them and that these tickets should be confined to their members?—I have no knowledge of it.

2991. *Mr. Khaitan*: I understand that in Calcutta when an Exchange broker dies, his place remains vacant and that it cannot be filled up?—It has really been the desire of the Indian brokers that they should limit the number. There has been a considerable amount of trouble about the Indian brokers' business in Calcutta and they have quarrelled among themselves; that being so, it has been very difficult for us to decide who should really be backed up and therefore we agreed that if they could not carry on amicably as an Association the only thing we could do would be to recognize them all as they were on the printed list of brokers. I cannot remember how many there were, but I think the number is 32, and we agreed that we would recognize these brokers but that when these brokers died and the firms ceased to exist, we would not allow other names to be put forward to fill the vacancy.

2992. *Chairman*: You say that fixed capital expenditure and block should in all cases be supplied by public or private subscription of shares or debentures in the undertaking. May I take it that this is in accordance with the practice followed by the banks in England hitherto?—Yes.

2993. It has been suggested that conditions obtaining in India are special and that the investing public in this country do not readily subscribe to the capital of such industries without a Government guarantee. Do you agree with this suggestion?—No, we do not think that it has been so. We think that promoters are often anxious to obtain Government patronage which would make it easier for them to obtain outside financial support, but we think that well considered schemes for developing existing industrial concerns would, especially in towns, obtain finance readily enough. In most countries all large industrial concerns are developments from a very small beginning.

2994. It has been suggested that commercial banks may play a useful part in obtaining such capital by examining the soundness of new enterprises and taking up shares of those that are sound and subsequently selling them to the public. Have you any views on this suggestion?—We consider that this would amount to underwriting industrial concerns, which is not a bank's business.

2995. One important Chamber of Commerce has pointed out the difficulty that exists at present of mobilising capital for industrial development and that debenture issues are not as popular in India as elsewhere. Will you kindly tell the Committee your experience in this matter?—We have no experience, but if the debenture referred to is an original debenture at

the time of the floatation of the company, we do not think that market prices would affect them. Original debentures are quite popular forms of security.

2996. Are they saleable in the market?—They are saleable, but I would say that they are bought more by investors and speculators and therefore do not pass in the same easy manner as shares pass. Generally, debentures of, say, mills, tea debentures, etc., are sought after in Calcutta.

2997. *Mr. Manu Subedar*: Do debentures form a good form of investment for banks?—No, after all, that is tying up capital.

2998. Do you think the stamp duty on transfer militates against their popularity?—I should not say so.

2999. *Chairman*: As regards capital for current requirements, may I take it that it is your intention that these should be obtained from the existing banks?—Yes.

3000. You say that indigenous bankers and shroffs in the districts are in closer touch with the agriculturists than an established bank can ever be, and that they fill a position which can never be satisfactorily filled by established banks. Would you kindly explain to the Committee what you mean by indigenous bankers or shroffs? The reports received from the Provincial Banking Committee show that the indigenous bankers have direct business relations generally with moneylenders and that it is the latter who have close relations with the agriculturists?—We really refer both to indigenous bankers and moneylenders, but we do not know very much what relations exist between these two and therefore we classify them all together.

3001. It is stated that the resources of indigenous bankers are considerably crippled by the competition of the Exchange banks and the Indian joint-stock banks and that for this and other reasons the indigenous bankers are gradually withdrawing from banking business and going in for trade and other business. Have you any information on this subject and can you tell us whether there has been a diminution in the business done by these bankers?—We have no information on either of these points.

3002. It has been stated that certain big European commercial firms obtain facilities from the Exchange banks for the purchase of produce at different mofussil centres and that similar facilities are not available to Indian firms. Can you kindly furnish us with statistics to show the assistance given by the Exchange banks to Indian and non-Indian merchants in this respect?—We have no statistics; we really have had no time to get any statistics.

3003. Would it be possible for you to supply us with statistics later on?—I will endeavour to do so.

3004. You say that the Exchange banks are reluctant to make advances against the hypothecation of jute stored in the mofussil and that if better godowns were provided in Calcutta, the Exchange Banks would be in a position to offer greater financial facilities than they do at present. It has been suggested by the Bengal Provincial Committee that *arhatdars* who are found in large numbers in Calcutta are now doing warehousing with their own staff and should be encouraged to make the necessary alterations to their existing warehouses and convert them into licensed warehouses. Can you tell the Committee how far you think such a scheme will be practicable and what steps should be taken to bring this about?—We hardly

think that this would be practicable, because when we suggested that better godown accommodation should be provided, we had in view really big *pucca* godowns, such as the Port Trusts have and the cotton godown at Sewri, which could be taken by the banks and jute stored in them under their own lock and key. I understand that most of the accommodation provided by *arhatdars* is just ordinary house accommodation; I have not had any experience about the particular style of the godowns. I think it would be required to be developed on a much more elaborate scale than could be done by simply altering the storage place.

3005. You say that the rate of interest charged in Calcutta against approved securities is usually 1 per cent. over the Imperial Bank rate. Will you please explain what you mean by "approved security"?—Government securities and also produce in course of shipment. The latter moves quickly.

3006. *Sir Purshotamdas Thakurdas*: You refer to produce in course of shipment; you would deal otherwise, with produce held up by middlemen?—No; the short duration of it is its attractive part.

3007. What is the normal period?—One to three months.

3008. Subject to renewal at the end of three months.—Not necessarily. It will have passed into shipment by that time.

3009. If a man held jute worth, say, 20 lakhs of rupees and he thought he would sell it six months later, you would not make any advance on that?—Not necessarily, the bank will take the market conditions into account.

3010. So it does not mean that you would only finance what was in course of shipment, you would finance raw produce generally?—Approved security here means what is readily convertible; produce which is quick in movement is considered by the banks to be approved security.

3011. Something which has a quotation on the market and which can be sold off?—That is readily convertible.

3012. It is not a necessary condition of the advance that the stuff must be sold for export only, it may be sold to a local man?—Yes.

3013. *Seth Haji Abdoola Haroon*: Do you refer to goods in the port or would you consider that goods lying in the mofussil also come within your approved security?—No.

3014. *Mr. Khaitan*: In Calcutta I believe you consider that the hessian delivery orders by jute mills are approved securities?—I understand they are accepted by banks as approved security.

3015. Do you also accept raw jute delivery orders as coming under the category of approved security?—I am afraid I cannot say whether they are. I have always understood that jute delivery orders were taken, but personally I have no experience of the business.

3016. You are aware that since the East Indian Jute Association has come into existence, delivery orders of raw jute are issued and they are guaranteed by the press house owner, by the jute baler and also by the merchant who offers them to the bank for an advance?—I know nothing about them.

3017. I have heard that while Indian joint-stock banks like the Bank of India, the Central Bank and the Punjab National Bank advance money

against such jute delivery orders, the non-Indian banks do not advance any money on the security of such delivery orders.—These are not jute mill delivery orders.

3018. I am referring to delivery orders in respect of raw jute issued by the baler, guaranteed by the press house owner and with the further guarantee of the merchant or dealer who offers these delivery orders to the bank as security. With these three guarantees, the jute delivery order is sometimes offered to banks for advance?—So far as I know, we have not been offered such business.

3019. So far as you are aware none of the non-Indian banks advance money against jute delivery orders?—So far as I know they do not.

3020. Would you kindly explain to the committee whether you are prepared to advance money against hessian delivery orders and why the non-Indian banks do not advance money against the jute delivery orders in respect of which they have got three guarantees?—I have no experience of the business. I do not know whether other banks do advance moneys or not, but we have never been offered such business.

3021. Perhaps, you will agree with me that there are several jute balers whose position is unquestionable, such as Surajmal, Jivanmal and Birla Brothers. The position of these jute balers, press house owners and other merchants is unquestionable. Could you tell the committee, not now if you have no information with you but later on, as to the reasons why jute delivery orders are not accepted as approved security by non-Indian banks? —I take it that when you speak of non-Indian banks you refer to Exchange banks. If so, I may tell you that Exchange banks do not advance moneys against goods which are not actually in course of shipment.

3022. Hessian delivery orders may be for goods which are not in course of shipment but in the case of jute they are in the course of shipment. Then, what is the reason for not advancing moneys against these delivery orders?—I do not say that Exchange banks do not advance moneys but they have never been asked to do so.

3023. I say if a person comes to the banks with the hessian delivery orders of Rs. 10 lakhs or Rs. 20 lakhs, you ascertain the market value, see that the party is good and advance him the money *i.e.*, a certain percentage of the market value. Why should you not do that?—I quite agree that it is perfectly sound but the Exchange banks have to consider the question of tying up money.

3024. It is not a question of tying up money, because hessian is easily saleable in Calcutta. Similarly, jute also is a liquid asset in Calcutta. These delivery orders are issued against actual baled jute. If that is so, what is the reason for not advancing any moneys against these orders?— I say that it is a sound business. But we are of opinion that such a class of business should be financed by the joint-stock banks in Calcutta.

3025. *Chairman*: I understand Mr. Khaitan's point is this. In this particular matter you make a distinction between hessian delivery orders and the jute delivery orders. Can you say whether you make any distinction between these two?—I think some banks do make a distinction and some do not. Some banks do also give advances against mill delivery orders.

3026. *Mr. Khaitan*: Hessian is mill delivery order.

3027. *Chairman*: His point is that the Exchange banks are willing to accept the hessian or mill delivery orders as approved security but do not accept jute delivery orders. And he wants to know the reason for this discrimination. Can you tell him the reason?—I can only say that the Exchange banks do not look upon either of them as approved securities. I made enquiries before I left Calcutta regarding the finance of jute with one bank manager who had advanced some moneys and his reply was that he did not advance moneys against such delivery orders but at the same time he took it as a collateral security as the margin of other security he held was small.

3028. So, your answer is, to the best of your knowledge they do not make a discrimination. They do not ordinarily take the hessian delivery orders or the mill delivery orders as approved securities. Is it not?—Yes, they do not accept either.

3029. Have you heard instances of a higher rate being charged by banks?—No.

3030. You say that no industries floated on sound lines and showing reasonable promise of success have been unable to obtain the financial assistance necessary and that on the whole banks as they exist at present are capable of supplying the finance required by industries. I presume you are referring to the finance for current requirements. Can you tell the Committee what part is played by the Exchange banks in this finance both in regard to industries under European management and under Indian management?—We are referring to the finance for current requirements. There is no discrimination as far as advances to one management or another management is concerned. It is not a form of advances that is catered for largely by the Exchange banks.

3031. Therefore, when you talk of banks as they exist at present you are referring to joint-stock banks other than Exchange banks. Is it not?—Yes. We say that no industries floated with reasonable promise of success have been unable to obtain financial assistance from banks generally.

3032. Do you suggest that it is not a real part of the business of Exchange banks?—Essentially not, but they cater for it to a small extent.

3033. When you cater for it, do you make any discrimination between industries under European management and those under Indian management?—No.

3034. You state that you are not in favour of trade banks which specialise in dealing with special trade. Can you give us any information about the operations of any trade bank or banks in other countries?—We have no information.

3035. That being so, might I suggest to you that your particular answer could not be looked upon as carefully thought out answer?—The question refers to the operation of trade banks in other countries. We only considered the matter of trade banks in India and we have no knowledge of trade banks in other countries.

3036. Have you any knowledge of trade banks as distinct from industrial banks?—No.

3037. You say that you are not in favour of trade banks. You have no experience of similar banks in other countries. That being so, may I know what your reasons are?—When this reply was framed, there was some confusion between trade and industrial banks.

3038. If that is so, I will leave it at that.

3039. *Mr. Manu Subedar*: Supposing there was a bank started in India to deal with the jute trade and nothing else. The manager of that Bank would have to be familiar with all the operations of both raw jute process as well as the export. Is it not?—Yes.

3040. Then, to that extent the bank would be able to appreciate the securities and the credits to a greater extent than a general banker who has to deal with such sort of trade?—That may be so; but then there is some danger in dealing with a single trade.

3041. That may be, but as the manager of the bank knows something of the trade, he would naturally go very cautiously and will give very small advance if he thinks it necessary. Whereas a general banker cannot do so if he was not familiar with the technical conditions of trade. Is it not? —Every banker who is a cautious banker would endeavour to find out the particulars.

3042. But if he understands more about that trade, he would give better advance if it deserves. Is it not?—Yes, it will benefit the public but there is the risk to the depositors.

3043. *Chairman*: You say attempts made in the past by industrial banks have not proved successful. Can you tell the Committee what attempts you are referring to? Can you also state what in your opinion were the reasons for the failure of such attempts?—We refer to the Tata Industrial Bank and the Alliance Bank. The Tata Industrial Bank failed to retain the confidence of the investing public and the Alliance Bank, due to the influence of a certain firm, launched into industrial ventures which, in a few years ruined the bank.

3044. I do not know much about the Tata Industrial Bank but the Alliance Bank was not really an industrial bank. Is it not?—No, it was dragged into industrial concerns without sufficient care and knowledge.

3045. A properly organized and properly developed industrial bank would not meet with the same fate as the Alliance Bank. Do you not think so?—We hope not.

3046. It has been suggested that no useful conclusions regarding industrial banks could be drawn from past experience as no attempt to have a well-conceived and well-managed industrial bank was ever made. Have you anything to say on this point?—We agree with the statement.

3047. *Mr. Manu Subedar*: You say that you do not favour at present the establishment of industrial banks. Under what conditions would you favour it?—When there is prosperity in India.

3048. Will you kindly tell us what conditions you would regard as prosperous?—Contrary to those at present prevailing.

3049. That is to say, so long as the conditions continue in the same way as they are present or if they become worse, you would not recommend the establishment of industrial banks. Is it not?—Yes.

3050. If the conditions become worse than they are at present, is there no prospect at all of the establishment of the industrial bank?—No, it would never receive support.

3051. *Sir Hugh Cocke*: Going back a few years when conditions were generally regarded as prosperous, do you think if an industrial bank had been established at that time on proper lines, it would have been a wise step?—If it was established on sound line, it probably would have been a wise step, and perhaps it would have weathered the depression in trade.

3052. *Mr. Devadhar*: Do you not think that is one of the reasons why we should really try to promote the industries by way of such an agency? If you think that there is at present unemployment and poverty in India, is there not a good reason why we should start such a bank?—We have no objection to the establishment of the industrial bank at all. Our reply to the question was given under the present conditions.

3053. May I know that as there is unemployment and poverty prevailing in India it is one of the reasons why we should adopt such a course?—As I said we have no objection to the establishment of the industrial bank, but we have to see whether our purpose would be served. The object of starting an industrial bank is to encourage industries and we have to see if that is possible under the present conditions.

3054. But I say if we really get some industries started with the help that can be given to industries by the indigenous bankers or any bank or banks, do you not think that we shall be gaining our object?—No.

3055. *Chairman*: Your real point is this. The prospects of output from an industrial concern financed by such a bank being utilised by the consumer are doubtful. Therefore, at the present moment at least your opinion is that no material advantage would be gained by the establishment of an industrial bank. When you talk of depression, etc., you have in your mind that the chances of the produce being utilised by the actual consumer were doubtful. Is that your point?—Yes.

3056. *Mr. Khaitan*: So, what would be your suggestion? What should this Committee recommend in order to bring about the establishment of the industrial bank in this country?—You have to make a suggestion according to the general evidence.

3057. Have you got any concrete suggestion to make?—No.

3058. You consider that merchants are at present able to obtain from the Exchange banks all the assistance they require to finance their import and export trade provided they are of good reputation and reputed to be possessed of means in reasonable proportion to the trade they do. On the other hand it has been represented to us that the attitude of the foreign banks towards Indian business in general is very unsympathetic and that they did not and do not grant proper facilities to Indian importers. Have you heard such complaints before and have you any statistics to rebut such statements?—As far as the first section of your question is concerned, we have had no complaints from any merchants that they do not get assistance from Exchange banks. As regards the second section that the Exchange banks are unsympathetic to Indian business, I say it is quite untrue. In my opinion I say it is untrue. I have no statistics at the moment which I can place before you to prove this point. My own experience is that the banks are doing more business with Indians than with others. I have no knowledge whatsoever of any Indian finding it difficult to do business which is quite in line with business principles.

3059. Do you think it will be possible for you to supply us with statistics?—I shall be very pleased to do so, if you tell me in what form you require these statistics.

3060. If you send us figures showing the volume of business you do with Indians and with non-Indians, it will meet, I think, our requirements?—You ask later on a question regarding the proportion of business that is done by Europeans and Indians. If I may say so, Indians are getting a fair share of their business and the actual statement will show that Indians are not unfairly treated. Their business is increasing in proportion to the non-Indian business.

3061. *Seth Haji Abdoola Haroon*: May I know if you can supply us with a statement showing the amount advanced on imported goods to European firms and the amount advanced to Indians on imported goods?

3062. *Chairman*: That will be raised when the question of deposits comes up for discussion.

3063. *Witness*: But I can say that even though the statement is prepared you will find that the old established European houses are probably getting a large share of the foreign trade business but that will not show that Indian business is not getting its fair share and is treated unsympathetically by the Exchange Banks.

3064. *Mr. Manu Subedar*: Well, it is for us to draw the inference.

3065. *Chairman*: I quite see Mr. Cook's point. These particular statistics will not be of any real value on the question of treatment of Indians by exchange banks.

3066. *Mr. Manu Subedar*: The inference which we draw will not be necessarily with regard to the sympathetic treatment. A suggestion has been made to the Committee that most of the deposits are from Indians and the banks make use of these deposits in giving advances to Europeans. Therefore, from the statistics we can draw an inference whether there is any justification for such a complaint.?—So, what I am actually asked to do?

3067. *Chairman*: We shall discuss that question later on when we come to the question regarding deposits.

3068. *Mr. Manu Subedar*: You said just now that you did not receive any complaint from Indians. Do you expect that a merchant who does not receive sympathetic treatment should make a complaint to you or to the public outside?—I think he should come and complain to me.

3069. He would naturally complain to his associations.

Chairman (to Mr. Manu Subedar): But would he not complain to the head of the bank?

3070. *Mr. Manu Subedar*: Do you keep a register of complaints in your bank and can you say definitely that no complaint was received?—I do not say that no complaint was received. I say we did not receive any complaint of any reasonable business being refused. A lot of people may come and ask for financial help and if there is no good reason for me to give that help, I may refuse. That kind of complaint cannot be called a reasonable complaint.

3071. No complaints have been received either by the bank's shroffs or other members of your staff?—No.

3072. *Mr. Devadhar*: I understand you to say that you will place before the Committee a list showing the amount of business done with Indians to prove that there was no unsympathetic attitude on the part of Exchange banks. So, in what form will you give us the list?

Chairman: We shall discuss later on in what form we should ask the witness to give us the statement.

3073. *Chairman*: Arising out of your previous answer would you kindly explain to the Committee how Exchange banks furnish themselves at present with the required information regarding the reputation of merchants?—All such information is collected by the cashier and his assistants, who are in touch with the clients.

3074. You state that it is only in cases where banks are unable to ascertain, even approximately, the financial status of a merchant, that the latter finds difficulty in securing the accommodation he may need and you observe that at present there are no information bureaus in India. Can you tell us whether there are any special difficulties in organising information bureaus in India on the lines of Seyd's in London and Dun's in New York?—The only difficulty we are experiencing at present is the difficulty of gathering reliable information. In western countries it is very easy to know about the position and status of a particular firm, because they always issue their balance sheets, but that is not always the case in India.

3075. Your remarks will refer more to indigenous bankers in this country but what about those who maintain regular accounts and are willing to publish their balance-sheets duly audited?—Such people will find little difficulty in satisfying the banks.

3076. At present you depend entirely on the report of the cashier and his organised staff for the supply of such information?—Yes.

3077. If owing to the prejudice of Indian merchants your proposal to have audited balance-sheets cannot be adopted by them, can you tell the Committee how you expect reliable information to be collected with regard to the standing and status of such merchants for the use of banks?—We cannot say.

3078. *Mr. Manu Subedar*: You say that all merchants in their own interests should adopt the business-like practice of having their books regularly audited by a recognised Chartered Accountant and a balance-sheet in correct form drawn up from time to time. Do you mean to say that European firms to whom you make advances place before you their balance-sheets duly audited by a Chartered Accountant?—Yes, invariably.

3079. *Sir Hugh Cocke*: Do you find any improvement now-a-days amongst Indian firms in the matter of having their balance-sheets duly audited by qualified Accountants?—There is a tendency that way but it is not very marked.

3080. *Chairman*: When you say Chartered Accountants, I suppose you mean accountants who are on the approved list of Government?—Yes.

3081. *Mr. Khaitan*: Are you laying any emphasis on the word 'Chartered'?—We might say recognised accountant and leave out the word 'Chartered'.

3082. *Sir Purshotamdas Thakurdas*: You don't insist on Chartered Accountants auditing the balance-sheets of these Indian firms who have dealings with you?—No.

3083. *Chairman*: It has been pointed out by one Chamber that in the matter of opening of credits by importers for purchases from a foreign party even first class Indian houses are required to make a deposit of 10 to 15 per cent. of the value of the goods, while according to their information, European houses in Calcutta are not required to make such deposits. The Chamber has also obtained information regarding the practice in New York, Sydney, etc., and find that no margins are required by banks for opening credits. Will you kindly tell the Committee what your practice in this matter is?—The question of deposits being asked for really depends upon the standing and position of the merchant and also to some extent on the nature of the commodity imported. It is not a universal custom to call for deposits in the matter of opening of credits.

3084. In the case of well-established firms like Messrs. Birla Brothers of Calcutta, would it be the practice to demand deposits under such circumstances?—I don't think we will call for deposits from a firm of such standing. As I already said, it all depends upon the position and standing of the firm as also the nature of the imports. In all these matters it is very difficult to lay down any hard and fast rule.

3085. *Mr. Manu Subedar*: In regard to imports you have the documents accompanying the bills on which you pay out and if the exporter at the other end is a firm of sound standing, would you still ask for deposits from the Indian firms which ask for opening a confirmed credit?—I should say that at least 9/10ths of the import business is done without credits at all.

3086. *Chairman*: Would I be correct in saying that in your dealings with your Indian and European customers you apply the same rules and the same standards?—Absolutely.

3087. It has also been pointed out that Indian merchants who import from abroad cannot do so on D. A. terms and can do business only on D. P. terms and that in order to encourage the import of Manchester piece goods, facilities are now offered to merchants engaged in that trade but that in the case of other commodities such facilities are not freely available. Have you anything to say in regard to this point?—D. A. terms are mostly arranged between the exporter abroad and the importer in this country; provided the arrangements made by both the parties are good enough to satisfy the banks, the latter advance money against the bill and deliver the goods. The D. A. terms are mostly entered into in the case of the imported piece-goods. But in the case of other sundry articles that are imported, they are almost invariably done on D. P. terms, because such importers are mostly people with limited means.

3088. So in the matter of granting D. A. terms the Exchange bank has no concern in the matter. Is that what you mean?—Yes, this is an arrangement which is almost always arrived at between the exporter abroad and the importer in this country. The Exchange banks have no power to grant D. A. terms without instructions from the exporter abroad.

3089. *Mr. Khaitan*: Would not that arrangement depend mostly on the preference shown by the bank at this end?—The bank reference is not

the sole basis. The exporter abroad also tries to get himself into touch with the importer here and unless he is thoroughly satisfied he won't allow D. A. terms.

3090. Does not your bank get constant requests for supply of bank references about Indian firms?—Undoubtedly.

3091. *Sir Purshotamdas Thakurdas*: What is the percentage, roughly, of the D. P. business transacted in this country when compared to the total business?—About 80 per cent. of the transactions are on D. P. terms. But you must remember there are big import houses in this country who are agents or branches of head offices located abroad. Imports in regard to such dealings should of course be excluded from this percentage. But in so far as the transactions between an ordinary exporter and importer is concerned, I should say, it is about 80 per cent. of the total business.

3092. But the number of such business houses who have their own head offices abroad are very limited?—Yes.

3093. Therefore, you will admit that the bulk of the imports into this country are on D. P. terms?—Yes.

3094. There is a general impression that the bulk of the imports made by other countries of the world are on D. A. terms. Is that so?—I think it is so.

3095. The Exchange Banks have been working in this country for over 75 years now and during all these years the Indian business is almost wholly being carried on under D. P. terms. May I know what part the Exchange banks have played in this country in encouraging Indian business when the whole world is working on D. A. terms?—Your question almost leads to an accusation that the Exchange banks have not been doing their duty. As we have already stated before, the question of D. A. business does not rest with the Exchange banks. It is after all a matter for the exporter abroad to decide. May I ask how can you expect an exporter abroad to send out his goods to this country to a small importer who has only a small room for his business?

3096. You need not think that I am making an accusation against the Exchange banks. I am only trying to place before you statements that have been brought to our notice, and I am doing it in your interest so that you may clear the point?—Thank you. We are always willing to help the Committee on any matter that they may feel inclined to question us.

3097. Can you name at least the names of 15 Indian firms who are importers who enjoy the privileges of having D. A. terms?—We have nothing to do in this matter. It is the exporter abroad who gives this facility.

3098. There are a few Indian firms who have got their business houses in London as well. Do you give D. A. facilities to such houses?—Yes, there are Indian firms to whom we give D. A. facilities on our own responsibility on trust receipts.

3099. *Chairman*: You said that importing arrangements are mostly done on D. A. terms in other countries. After reading this book by Moulton, I do not find that the business is exclusively done on D. A. terms. What is your information?—The business is largely done on D. A. terms at 60 days sight. That is our belief.

3100. *Sir Purshotamdas Thakurdas*: Export business from India is done mostly on D. A. terms?—Yes.

3101. All countries which import raw materials from India do so under D. A. facilities?—Yes. The small importers in this country cannot be classed with well established business houses at home.

3102. Therefore, you admit that D. P. finance is more the exception than the rule with regard to exports of raw materials from this country?—Yes. Our bills that go out are in thousands of pounds but the import bills are generally only for very small amounts, in hundred of pounds. And as we told you we allow D. A. terms on our own responsibility to our selected customers on trust receipts.

3103. Can you name the standard by which you differentiate the D. A. as against D. P. facilities?—We cannot explain what the standard is.

3104. Member after member of commercial bodies told us that some of their members who were even worth a crore of rupees could not enjoy the D. A. privileges because the Exchange banks held that it was not customary in India?—It may be so in the past, but I can tell you that the present competition is so keen that even amongst ourselves if one bank refused to accept such business there will be others quite ready to do it.

3105. What I am trying to get at is: if what you say is true, why do people who are even worth more than Rs. 20 lakhs not get D. A. facilities?—It is for such firms and people to come round and ask the Exchange banks to give them a good banking reference to their parties abroad to allow them to get the benefit of D. A. business. And another most important thing why D. A. terms are not very much in vogue is that the small importers in this country do not generally insure their goods against fire or other contingency, and supposing the goods were burnt by fire or other causes, the bank may possibly stand to lose their money.

3106. *Chairman*: You admitted that in the case of the Indian export business, the arrangements are, in the majority of cases, D. A.—Yes.

3107. *Mr. Manu Subedar*: I understood you to say that the question of facilities, whether it is D. A. or D. P. which you grant to your constituents depends entirely on their standing and also on the impression which you have formed of his day to day dealings with you, whether, they are Indian or European.—Quite.

3108. Considering that European houses have larger dealings than Indians, is it not true that the former get better facilities because of their larger dealings?—They will get the same facilities according to their resources and according to their standard as an Indian company would.

3109. Considering that the bulk of the Indian importers are doing business in a small way, they would naturally not get the same terms of credit?—That is not right.

3110. Then that according to you is incidental and not intentional?—They get exactly the same treatment as an English firm of the same standing would get.

3111. Therefore you say that though it is unintentional it comes to this: that a large number of Indian importers are left out from the facilities which they think they should have?—If they are not getting those facilities

it is because they are not of the same financial standing as others to whom such facilities are given.

3112. Would you accept or repudiate the suggestion that the Exchange banks are discouraging D. A. facilities and encouraging loan business in order to earn a higher rate of interest?—We are not earning a high rate of interest; therefore I repudiate the suggestion. The idea of discouraging D. A. is solely on account of the difficulty of finding the standard of people who should get D. A. and nothing else.

3113. Is it not a question of earning more interest?—Absolutely not.

3114. *Mr. Jamal Mahomed*: You say that most of the export business in India is on D. A. terms whereas most of the import business is on D. P. terms; is it because you think D. A. bills are a better security?—No. As I have already explained, the import houses at home are of a quite different standard to the ordinary importer here. There are few importers at home compared to the importers in this country.

3115. Do you not think that the banks here have not helped to make the import business run on D. A. terms?—I have already replied to this and have also given reasons for this.

3116. My point is that whereas most of our exports go on D. A. terms, most of our imports come on D. P. terms, and all this business is conducted by British banks; is that not so?—It is being done by the British Exchange Banks.

3117. Even so, is it not strange that most of our stuff goes on D. A. and the foreign stuff comes on D. P. terms? Do you not think that the Exchange Banks in India, as they are. find it difficult to find out the real status of the importers?—Yes.

3118. Do you not think it is due to the fact that no Indian bank is at present doing exchange business?—I do not think it makes any difference.

3119. Do you not think that an Indian bank will be more in touch with the merchants and therefore will know their financial position and status better?—I should say that that would be.

3120. Would you contradict the statement that because most of the exchange business of the country is being done by the Exchange banks, it is difficult to find out the proper status of the merchants?—I would not agree to that; though I think that as a general principle your statement would be correct.

3121. You know that in cases where D. P. bills are drawn, banks in foreign countries, in the case of reliable clients, deliver the goods on D. A. terms.—That is a matter of arrangement between the importer and the bank at the other end.

3122. Am I right in saying that the man who fixes the D. A. or D. P. is the exporter?—It depends on the standing of the man.

3123. Supposing you get a bill on me which is D. P.; I want it to be delivered on D. A. terms. If you happen to know me and my financial position and status, would you still have to go to the London banks?—I would wire home whether we could deliver on D. A. terms. It is a question of the exporter knowing you.

3124. *Mr. Devadhar*: Do you not think that Indian Exchange Banks would be able to give better facilities to Indian exporters or importers provided their business were run on sound lines?—I do not think an Indian bank would be in any better position. That would depend on what he would consider the standard of safety.

3125. *Mr. Manu Subedar*: It has been suggested that Exchange banks have in the matter of exports discouraged the small exporter and in the matter of imports have gone out of their way to encourage the small importers. What do you say about that?—I should say that it is very probably so; but it is more likely to hit the large European importer in India than the Indian importer.

3126. *Chairman*: It has been further pointed out that in the case of Indian exporters, the Exchange banks insist on the foreign importer securing a confirmed letter of credit with some first class London bank in favour of the Indian exporter. As some of the buyers in foreign countries whose financial position is undoubted do not like to incur the expenditure of opening credits, the present practice is said to place the Indian exporter at a disadvantage. Have you anything to say in regard to this suggestion? —It is in the interests of both the exporting merchant and the banker to have credits opened by buyers in foreign countries. Business done without letters of credit is the exception and not the rule. The question as to whether the Indian exporter is placed at a disadvantage is again purely a question of financial standing and integrity. Indian merchants of high reputation should not be at a disadvantage.

3127. What is the general practice all over the world? Is not this business done by opening a letter of credit?—I cannot say; I have no information.

3128. *Mr. Manu Subedar*: Is there any representative of your Association who has an experience of this. (Mr. Ingram): I have experience of Strait Settlements and I know that credits are opened by the importers.

3129. *Chairman*: It has been also pointed out by one Chamber of Commerce that in the case of some Indian firms satisfactory references are not supplied by the Exchange banks to the overseas merchants though in the case of foreign merchants whose resources are considerably lower than some of the Indian firms the banks of that country supply very good bank references. Are you aware of any such complaints and can you tell the Committee what the practice of the Exchange banks is in regard to the supply of references about Indian firms?—No; banks always give the best reports they can.

3130. *Mr. Manu Subedar*: Are the reports based entirely on the resources or on the personal knowledge the bank manager has of the clients? —On the resources and also on the personal knowledge.

3130 (*a*) Does it not mean then that the bank manager who mixes with his European clients at the Club will have a closer personal knowledge of them than of Indian customers?—Undoubtedly he will have more knowledge of their private life.

3131. *Chairman*: You say that Exchange banks have branches at larger inland centres of trade where they finance the import and export business direct to and from those centres. It has been suggested that the opening of branches at internal centres by Exchange banks has resulted in unequal competition between the Exchange banks and Indian joint stock banks and indigenous bankers in the matter of financing internal trade and that

Exchange banks should be prohibited from opening such branches in order to encourage Indian joint stock banks and indigenous bankers. Can you tell the Committee what part Exchange banks play in the financing of internal trade of India?—The Exchange banks were at most of the larger inland centres before there were any Indian joint stock banks. They have never to any extent interfered with the business of the indigenous banker. The Indian import and export trade at these centres has been created and fostered by the Exchange Banks. They finance the import business by granting loans on goods imported and the export business by loans against goods in course of preparation for export.

3132. *Mr. Manu Subedar*: Would you kindly tell us the total number of branches that are in the inland centres (*i.e.*, except at the main ports)?—I could not do it off hand.

3133. Could you tell us whether the actual turnover business at these branches in the interior has of recent years increased?—It is smaller now than it was in the height of good trade.

3134. It would be smaller compared to the boom years, but taking the normal position, say before 1913, would it be smaller today or greater?—I am afraid I am not in a position to answer.

3135. Could you let us have the information later, say for the last five years?—The difficulty is that we are only concerned with the total volume of business of the members of our Association.

3136. *Chairman*: We want to get at the volume of trade, more especially in the upcountry branches, for the five years ending 1913 and also for the five years ending 1929. We should also like to have the information in the form supplied by the Imperial Bank in regard to advances of all kinds.

3137. *Sir Purshotamdas Thakurdas*: Could you get information for the foreign Exchange banks?—We could get for the British Exchange Banks.

3138. *Mr. Buckley*: I am very much afraid that Mr. Cook will never be able to collect this information, because no bank will tell anybody what his advances to any party amount to. I would suggest that the Director General of Statistics in Calcutta be asked to apply to the Exchange banks in London through the India Office for the information which would be supplied by them in London in a consolidated form.

3139. *Chairman*: Then, Mr. Cook, you need not trouble, we have already taken action in this direction?—I might say that the same applies to the volume of trade upcountry; it would be exceedingly difficult for the banks upcountry to disclose any information.

3140. Does the same difficulty apply in the case of turnover?

3141. *Mr. Buckley*: I should have much pleasure in writing to the London Association and putting this point before them and trying to get some figures for the information of the Committee.

3142. *Chairman*: In that case we shall not be able to get information about non-British banks?—I do not think that it would amount to very much.

3143. And there is no means by which we can get information from the non-British Exchange banks in regard to their loans and overdrafts?

3144. *Sir Purshotamdas Thakurdas*: The Dutch bank has only opened during the last few years?—I am afraid I could not tell you.

3145. They have no branches upcountry?—No.

3146. *Mr. Buckley*: The figures the India Office have already been asked to collect are on the lines of the figures supplied by the Imperial Bank and they relate to the whole of India. The turnover can be collected in London and given in the form of a percentage which I think is all that the Committee would ask for.

3147. *Mr. Manu Subedar*: I should like to have the absolute figure also. Supposing they told us that during the last five years increase was 60 per cent. that would be no indication. I should like to know whether it was 5 crores or 10 crores increase.

3148. *Chairman*: This is not a matter which we need discuss with Messrs. Cook and Ingram. We shall have to consider it among ourselves before we decide about the precise information we want to collect.

3149. *Dr. Hyder*: If the complaint refers to the opening of branches and exposing the indigenous banker and the joint stock banks to greater and unfair competition, the question arises whether the Exchange banks might not in their own interest amalgamate themselves with the indigenous bankers. Do you really think that we as a Committee would gain very much even if we had all these statistics?

3150. *Chairman*: There is a good deal in that and we might discuss among ourselves.

3151. *Seth Haji Abdoola Haroon*: You said that Exchange banks, in the case of exports, finance only such stuff which are in course of shipment or under preparation for shipment. How do you account for inland branches of the Exchange banks?—The inland branches, say at Delhi or Cawnpore, send hides and skins for export.

3152 But not from all inland places?—The only one which I mentioned before as not doing exchange business was Lahore.

3153. Sometimes these banks might also finance not only shipments under preparation but also other stuffs?—They may, but it is not very common.

3154. So the financing is not necessarily confined to shipments in course of preparation?—As a rule it is confined to shipments in course of preparation, but it may be that in very rare cases some exporter of considerable standing might get an advance against stocks examined by the bank and on the security of that stock.

3155. There are some reports that many leading European exporters from the chief ports are financed by banks for their purchases inland?—I have been referring to financing upcountry direct exporters.

3156. Suppose there is a European firm in Calcutta which purchases its goods, say in Lahore or Delhi or Patna. The firm at Calcutta is fairly well financed to cover its purchases?—I could not say whether it is or is not done, it is not to my knowledge.

3157. *Mr. Ramdas Pantulu*: Messrs. Volkart Brothers in Madras send their men to villages to buy cotton and groundnut and other crops and we are told that they get their finance by some arrangement through Exchange banks for purchasing their produce?—I am not in a position to say about this; I have never been to Madras.

3158. *Chairman*: The point is a general one. Do the Exchange banks give advances to, say, an English exporting house at Calcutta to enable them to buy produce upcountry?—I have no knowledge of their doing so.

3159. Let us assume that Ralli Brothers at Calcutta want to purchase upcountry, say jute in Dacca. Would no Exchange bank in that case provide them with the necessary finance?—They would never ask for it.

3160. Can you say how they would provide themselves with the necessary funds?—They never deal with Exchange banks, they would arrange for finances out of their own funds.

3161. *Mr. Ramdas Pantulu*: My question was whether it is true that Exchange banks advance finance?—Generally speaking it is not the usual arrangement.

3162. *Mr. Khaitan*: Is the information correct that some European merchants in Calcutta have got cash credit accounts with Exchange banks? In operating on such an account there is a column 'goods paid for but not delivered'—I could not say, I have no experience.

3163. But they would borrow in Calcutta monies which they can utilise for the purpose?—We could not say; we do not control any of these firms which may have financial arrangements with the bank.

3164. *Chairman*: Assuming that any of these big European export houses were to borrow money from an Exchange bank in Calcutta on such security as the Exchange bank demands and considers to be good security, the Exchange bank would make an advance without trying to go behind the transaction? The money would thereafter be taken upcountry and used for the purchase of raw produce.—It might be.

3165. *Mr. Khaitan*: Is it always that security is demanded from European firms in opening cash credit accounts and are securities actually handed over to the Exchange banks for the operation of a cash credit account?—I am not in a position to give any information.

3166. *Chairman*: We have heard it stated before that it is not the custom of banks (it may or may not include Exchange banks) in all cases to insist on security when they grant an advance, but in some cases they would depend on the personal security of their customer as known to themselves. My colleagues want to know whether, when an Exchange bank gives an advance to one of its customers, it always demands tangible security or whether there are certain cases in which it grants advances on personal security?—I have no knowledge of the arrangements which the banks make. It entirely depends on the person.

3167. Are there cases in which advances would be given on personal security alone without demanding tangible security?—I could not say; I know nothing about it. (Mr. Ingram: As far as Bombay is concerned, from my own experience, there are very few, if any, clean overdrafts).

3168. *Mr. Manu Subedar*: Are you content merely with a promissory note or do you ask for any collateral security on cash credit?—I am afraid I am not in a position to answer.

3169. *Mr. Buckley*: It is the general practice of banks to advance money to merchants on cash credit account against security?—Yes.

3170. There are cases where banks do advance money to merchants against no security, that is to say, clean advances, but they are the exception?—Yes.

3171. When security is offered or arranged on cash credit account, it is usually against goods in the borrower's godowns or goods in transit which have been paid for, but not delivered, and the whereabouts of which the

banks do not know; but banks do not as an invariable rule advance against goods in the mofussil or lend money to merchants for the purpose of going upcountry and buying goods in the mofussil?—That is so.

3172. *Mr. Manu Subedar*: Suppose the cash credit arrangements are made some time in the beginning of the year, when there are no goods because the purchasing season and the exporting or importing season have not started. At that time you will be content with a promissory note. The understanding generally is that the man will draw these monies and use them along the usual lines for making purchases and when the documents emanate, they will come to the bank in due course. Is that not so?—Yes.

3173. Therefore in the beginning, when the merchant does draw money, there are no goods?—One could not say when he draws the money. In the first place the cash credit would only be granted to persons of very high standing. One would watch.

3174. Once cash credit is opened for a certain amount, if a cheque is received, it would be cashed and you would not know to whom the cheque is paid?—Presumably not. We would not follow the money.

3175. But there is a general understanding that the money is going to be used for a specific purpose?—He might be using the money all the time.

3176. So that, there is no collateral against cash credit to start with. Collateral arises in due course?—It may not be so.

3177. The point is whether the collateral arises after the cash credit is opened?—The assumption is that the cash credit is for the purchase of certain commodity. At least the cash credit may be clean with the banker's knowledge that the commodity has actually been purchased and is *en route* to his care; when it arrives under his care, it becomes collateral.

3178. The collateral arises later?—Yes.

3179. That is, the amount which is arranged is of the maximum turnover which he will make?—That is so.

3180. Therefore the maximum turnover may not arise till late in the centre of the season?—Yes.

3181. In the meanwhile he will be drawing money from you by individual cheques of which you will not know?—We would not follow it.

3182. *Chairman*: Can you tell us what the effect of the continuance of such business by exchange banks would be on:—

(1) the interests of merchants and traders;

(2) the interests of the Exchange banks themselves;

(3) the interests of the Indian joint stock banks and indigenous bankers?

—The continuance of such business by the exchange banks is in the interest of merchants and traders and also of the Exchange banks and as stated we do not interfere with the normal business of the Indian joint stock banks or indigenous bankers.

3183. It has been suggested that the European exporters and importers have the monopoly of India's foreign trade whilst the Indian merchants have now the major part of the business of the internal trade and that

by opening of inland branches, Exchange banks encourage foreign traders to compete with the Indian merchants even in regard to this internal trade. Have you anything to say on this?—We do not agree with the statement. We think that Indians are having increasing part in the direct import and export business, and moreover the middleman has not been eliminated.

3184. We have specific instances about the operations of Japanese. The statement which we have made applies also to the Japanese Exchange Banks. What do you say on this point?—There are no Japanese banks upcountry.

3185. We have been told that men from Japan financed by the Japanese Exchange Banks have now extended their operations into the interior where they buy cotton from the producers or middleman. This has driven out of market to that extent the Indians who have hitherto been doing that business?—You refer to Japanese connected with the bank or connected with the mercantile community?

3186. Simply to the fact that they are financed by the bank.

3187. *Sir Purshotamdas Thakurdas*: Reference is particularly to the facilities given by the Japanese Exchange Bank, the Yokohama Specie Bank, to Japanese cotton houses in Bombay whereby that bank allows the Japanese cotton house to draw on it against the purchase made by a Japanese exporter not in the recognised market but even in the way-side villages?—We have no particular information regarding this. We know that Japanese firms are financed for cotton in godowns in Bombay by the National Bank or Japanese Bank. How far they advance for the purchase of these goods we do not know.

3188. Are you aware that the Japanese exporter draws a Demand Draft on the Yokohama Specie Bank against the purchase?—No, I am not aware.

3189. Supposing I tell you that it was so, would this impression be further strengthened?—We know Indian merchants do that class of business.

3190. Yes, Indian merchants bring cotton to *mandi* and then they sell there. Japanese export houses used to buy cotton in Bombay or in any recognised market like, say, Akola. Now they have opened their branches in the upcountry and there they buy cotton. They then draw on the Yokohama Specie Bank and the cotton goes right through from the field practically to the consumer in Japan due to the assistance given by the Yokohama Specie Bank. Can you say anything on this point?—We have no knowledge if the cotton is purchased by the Japanese in the upcountry. If that is so, I think it is done as a special case but generally it is not done.

3191. *Chairman*: Taking that individual case of that particular class of goods a statement has been made to us. The same thing may happen in the case of foreign traders also. What you told us is that there was no special encouragement given to the European traders. But as regards these Japanese traders you know nothing on the subject. This is a case which has been brought to our notice by Bombay Indian merchants. Mr. Ingram also has no knowledge on the subject.

3192. *Seth Haji Abdoola Haroon*: I want to bring to the notice of the committee one fact that in Sind and the Punjab not only Japanese but European firms do business not only in cotton but in what we call *Kapas*. They hire ginning factories there and they do all the kind of process there.

Last year about 75 per cent. of business in cotton went away from the hands of Indians.

3193. *Sir Purshotamdas Thakurdas*: But do the banks give them similar facilities as mentioned to you just now.

Seth Haji Abdoola Haroon: I do not know whether they receive any facilities from the Exchange banks or from any other banks.

Witness: There are firms like Rallis and Volkarts who are not financed by banks. They do business with their own resources.

3194. *Chairman*: Who would finance them? Do you mean to say Rallis and Volkarts would do? I take it the only source of finance is through the Exchange banks?—They must be doing business with their own resources.

3195. These are obviously the commodities leaving the country. Because I also find a similar statement made in the memorandum sumitted by the Indian Chamber of Commerce, Calcutta. They say "European export and import houses with their vast resources are competing very seriously with Indian firms for this kind of business". What is your knowledge?—I cannot say anything in the matter. As far as my knowledge goes, there is no such evidence before us.

3196. *Mr. Khaitan*: May I remind you of the case of Messrs. Landale and Clarke who now go into the interior and buy jute and have been increasing their business?—Have they not always done so?

3197. The feeling in Calcutta is that formerly about 25 per cent. of this interior trade was done by the European firms and 75 per cent. done by the Indians whereas now it is quite the reverse. Is it not?—I do not know anything on this question. This information you can get from the Chamber not from the bank.

3198. *Mr. Ramdas Pantulu*: What do you say about the operations of the Imperial Tobacco Company?—I have no knowledge.

3199. Are they financed by the Exchange banks?—I think the Imperial Tobacco Company most likely finances itself.

3200. *Mr. Manu Subedar*: With regard to the case referred to by Mr. Haroon, do you think it would be possible that the European firms are getting the money from the Exchange banks by way of previous arrangement of cash credit?—It would be possible.

3201. You have already stated that in the case of cash credits no tangible security is asked for at the time when cash credits are arranged. Is it not?—It is asked for.

3202. What is the kind of security you ask for?—We ask for the commodity particularly cotton.

3203. Is it not credit?—Let me explain to you that the cash credit when first granted is granted against cotton which is going to be shipped. The bank makes a stipulation for the submission of statements either monthly or fortnightly. So there is a possibility of having two checks.

3204. Cash credit is given against the promissory note. Is it not?—Promissory note is simply a legal document and that is a legal part of business.

3205. Then, the legal security would be the promissory note and the actual security would be the statement of goods submitted. Is it not?—They originally give a bond coupled with the promissory note.

3206. When once the cash credit is granted, one can draw to the extent of the cash credit with confidence?—He is not going to buy cotton to the full extent of the cash credit.

3207. If the business is profitable, he may do so?—The security against this cash credit, in any case, is in the possession of the bank. There is a clause to the effect that the goods purchased by the firm should be *en route* to the godown or the property of the bank.

3208. How are you going to arrange about the unginned cotton?—No Exchange bank would allow any cash credit on unginned cotton.

3209. So, the dealer will give in the statement of baled cotton. But when they are not baled then?—I do not think that cash credit would allow of the purchase of cotton in that state. The banker may make a bond with the buyer.

3210. I understand that certain firms receive cash credit from the Exchange banks on the consideration that those funds would go towards purchase of cotton. Is it a fact?—I have no idea about it.

3211. *Chairman*: You talk about the cash credit bond. Am I to understand that when the cash credit is given, the party receives cash credit signs the bond and deposits it with the Exchange bank?—Yes.

3212. Would you kindly favour us with a copy of the form?—Yes. I can give you the form.

3213. *Mr. Khaitan*: Will you also be good enough to give us the usual form of monthly and fortnightly statement?—There is no standardised form. There are varieties for forms.

You may give us those forms. Can you?—Yes.

3214. *Chairman*: You state that after the arrival of goods in India from foreign countries, considerable assistance is given to importers by the Exchange banks in the way of deliveries against acceptance and on Trust Receipt, or by means of loans on the goods to enable the relative bills of exchange to be paid. It has been stated that some time ago the Exchange banks abruptly and arbitrarily decided not to give partial delivery of goods. Will you kindly tell us the circumstances in which such a decision was arrived at and why previous notice of such a change could not have been given to the merchants?—It was found that during the period of slump in 1921 the goods had to be held over until they were cleared. The system of partial deliveries was purely a temporary phase. When the stocks were cleared in January 1928, the method of partial delivery was discontinued. It was a war measure.

3215. Therefore, you do not now give partial delivery even on Trust Receipt. Do you?—Actually we do not but if we have instructions from the drawer we do. Trust Receipt is given by the dealer when the goods are wanted by him and the goods are released on his undertaking to pay the bill. That is a different form, but the partial delivery is actually against the bill.

3216. It has also been complained that when Exchange banks make alterations in the rules of business with merchants, the alterations are neither communicated to the merchants nor are they notified at least in the office of the Exchange Banks' Association. Would you kindly explain to the committee what your practice is in the matter?—When there are any changes in the rules, the merchants are more often communicated with

through their brokers. We have no objection to advertise, if the merchants think that any changes in the rules should be so advertised.

3217. It has also been suggested that before making any alterations in the rules of procedure it may be useful to the Indian merchants, perhaps also English merchants, if the Exchange Banks' Association were to consult the Chambers of Commerce and other representatives of English and Indian merchants or brokers?—If they are so serious the Association will be happy to consult them.

3218. Therefore, you say that you have no objection to circulate the rules among the various Chambers. Is it not?—Yes, those rules which only affect the merchants.

3219. *Sir Purshotamdas Thakurdas*: Can a merchant in Bombay ordinarily dealing with Exchange banks get hold of these rules uptill now?—Merchants have been informed that if there is any question regarding the ruling, we shall be able to give them a copy of the ruling.

3220. If my firm is dealing with an Exchange bank and if the manager of the bank says that a certain thing is against the rule of the Association, my firm has to accept that word of the manager. Do you think it is a reasonable condition in which you put your clients?—Is there any rule that has been detrimental?

3221. Yes, there are many rules which are detrimental. I do not understand why the Association should fight shy of giving a copy of their rules to their clients in print. Very often you change your penalty clause and nobody knows about it. Is it not—I do not think there is any change in the penalty clause.

3222. During the last seven years you have either decreased it or increased. How is it to be known by the other side?—You get the information from the brokers.

3223. May I know if your Association would be prepared to sell the rules charging Rs. 2 or whatever price you may fix?—No, I would bring this question at the meeting and decide about the circulation of rules which affect the business of the merchants. But I may assure you that if there is any rule which affects business of the merchants, we have no idea to keep it secret.

3224. *Mr. Buckley*: In Bombay I think the rules are not published. But in Calcutta in view of certain requests having been made for a copy of the rules of business, did we not some years ago publish the rules?—I have got a copy here also which was published in Calcutta.

3225. That has been supplied to merchants on application. Is it not?—Yes.

3226. Will you kindly place the copy on the table for the information of the Chairman?—Yes. These rules were published on the 15th of November 1926 and have been brought up to date.

3227. *Sir Purshotamdas Thakurdas*: May I know when it was last available?—In 1926.

3228. But there have been many changes since. Is it not?—Yes. But they have been made available. We have not sent them to the customers but they have been made available for them.

3229. But here is the representative of Birla Brothers and he says that they have not received any copy?—I am quite certain that they have never asked for it.

3230. *Mr. Khaitan*: My point is: how has anybody to know that you are making any changes in the rules?—The changes are made only once in six months or so and those also are very small changes. Those changes are immediately known to those concerned. There was a change the other day in connection with the penalties. Because of the condition of the market, we have dispensed with this penalty of 1/32nd. I have mentioned this change because it is the last change we had in the rules.

3231. There was a complaint that in 1928 there was a change in the rules about partial deliveries and all outstanding contracts were treated by merchants as being governed by the provisions of their contract. Since 1928 you stop giving partial delivery?—I agree that there was a change in that connection. So far as Calcutta is concerned we never had partial delivery.

3232. How are the people to know about the changes? Whenever there are any changes, some proper arrangements should be made to supply the copy to merchants?—I am quite willing to do so.

3233. *Mr. Rushforth*: Brokers can always get copies of the rules from the table of the manager of the Chartered Bank or any other bank.

3234. *Chairman*: You state that clean credit is not in the ordinary way obtainable, but clean bills of approved parties may be negotiated by the banks. Can you tell us whether there are such approved Indian parties on the lists of the Exchange banks?—No. Clean bills are usually finance paper and are confined to the large British Houses whose paper is recognised and fully accepted in the London market. As a rule they draw on firms at Home but there are no Indian firms who finance like this in this country.

3235. In the case of English firms you do in that particular way; you do not give them clean credit?—No.

3236. It has been pointed out by one Chamber that the penalty now charged by the Exchange banks for the late completion of exchange contracts is very high. Will you explain to the Committee the object of charging this penalty and whether you consider the penalty is capable of reduction or abolition?—The penalty which is charged is on the non-delivery of export bills. The remedy for that would be the cancellation or the carrying forward of the contract.

3237. *Chairman*: Would I be correct in assuming that this arrangement of charging the penalty is really to ensure that the merchant is going to carry out his part of the contract?—A bank has always got to act up to its contract and in the same way its customers also have to do so. The only thing is that the penalty is charged, if at the end of the period of his contract he is not able to abide by it owing to the late delivery of the goods.

3238. *Seth Haji Abdoola Haroon*: Is this penalty alike both to Europeans and Indians?—Certainly. And we have not heard any European firm complaining about this penalty at all.

3239. *Chairman*: Is the system of penalty in vogue in other countries also?—We cannot say.

3240. *Sir Purshotamdas Thakurdas*: The complaint is not so much against the penalty by itself but to its being high?—It may be high, but our

point of view is that the merchant has got a whole month before him to decide whether he can take up that contract or not.

3241. *Chairman*: And is it a fact that the rate of penalty charged by the Exchange banks in Calcutta is more than that charged by banks in Bombay?—Yes.

3242. Is it possible for you to say why the Calcutta rate is higher than that of Bombay?—We cannot say why it is so. In Bombay, the rate is 1 per cent. over the Imperial Bank rate

3243. My point is that if Bombay finds the penalty rate of 1 per cent. over the Imperial Bank rate a sufficient deterrent on the banks, why is it that Calcutta charges a higher rate for the same purpose?—So far as the question of export is concerned, because the delay will really mean a loss of interest in London, the Bank of England rate is taken into consideration. When the Bank of England rate is 6 per cent., we don't consider the penalty high at all.

3244. *Mr. Manu Subedar*: Now that the discrepancy has been brought to your notice between the Bombay and Calcutta rates, would it be possible for your Association to equalise the rates in the two places?—I think it is a matter for consideration.

3245. *Chairman*: Would it be possible for your Association to have the matter examined?—Certainly, it is a point well worth consideration.

3246. *Mr. Rushforth*: Am I right in saying that the penalty of 1/32*d.* a week is equivalent to about 10 per cent. per annum. Therefore 1/32*d.* for a fortnight would be about 5 per cent. per annum which is no penalty at all; rather an encouragement to the merchant to get cheap finance. (Laughter)—We entirely agree.

3247. And may I add that in actual practice the penalty is very rarely exercised?—

3248. *Sir Purshotamdas Thakurdas*: On the other hand, may I be correct in saying that the penalty is invariably excused?—The penalty is almost invariably exercised.

3249. *Chairman*: You say that the present methods of warehousing are satisfactory. It has on the other hand been pointed out by one Chamber that some of the terms on which the goods are warehoused by bonded warehouses in Calcutta are very unfair to the merchants, that the banks have no security or guarantee about the number of packages stored or the weight of the goods, that the charges are every high and the methods employed by the warehouses in taking and giving delivery of goods are very dilatory. Will you tell the Committee what your experience has been in this matter? —Our experience in Calcutta is that the system of warehousing is perfectly satisfactory although there is a general complaint that the charges are a bit high, especially in the case of those goods stored in the Port Trust warehouses. As a matter of fact the Port trust warehouses are *pucca* godowns and the charges for them are no doubt a bit higher than those charged by the *kacha* ones in the city, but the fact is that the charges for up-keep of the Port trust warehouse including insurance of the goods stored in them are found to be so high that it is sometimes even found impossible to make both ends meet.

3250. *Sir Purshotamdas Thakurdas*: We hear these receipts are worded something like this 'alleged to be so many packages.' Is that

so?—We know exactly what goods are stored in them. In all cases, one of the employees of the bank would personally see to the storage of goods in the godowns.

3251. *Mr. Khaitan*: Would you not like the receipt issued by the bonded warehouses to be more clear and explicit, instead of the vague expression 'said to contain so many packages', etc. I have not seen the wording myself quite clearly, but the members of my Chamber have complained about the vagueness of the receipt?—It is a long time since I saw a receipt, myself, but I perfectly agree that clearer the receipt the better will it be.

3252. *Chairman*: You have no idea how these receipts are worded yourself?—No.

3253. You have referred to legal questions leaving the validity of Trust receipts and Letters of Lien in doubt. Can you explain what legal difficulties you refer to? Can you also suggest any remedies?—We want that the stamp duty should be legalised, and if these documents are misused, it should be made a criminal offence.

3254. *Sir Purshotamdas Thakurdas*: You say that the legal questions leave the validity of Trust receipts and Letters of Lien in doubt. Have any cases, in which legal difficulties arose, come to your notice?—

3255. *Mr. Lamond*: Two cases are already on record. One was, I think, brought by the National Bank of India and the other by the International Bank.

3256. *Chairman*: Therefore, the modification of the rules in regard to the stamp duty will by itself not solve the difficulty?—No. We want that the breach of trust in regard to these Trust Receipts should be made a criminal offence.

3257. *Sir Purshotamdas Thakurdas*: Do you think such a provision will be sufficient?—We think that will be sufficient. At present we can make a civil claim, but if criminal liability is also enforced, then it will be a salutary provision.

3258. *Chairman*: You make some suggestions for legislation so as to give the banker a recognised prior lien over goods specified in the credit instruments used in trade and add that that would help bankers and traders alike very much in the giving of credit, uncertainty in any shape or form being a hindrance. Would you kindly explain a little more fully in what manner uncertainty arises in regard to existing documents?—The answer to this question has already been given in our answer to the previous question. The modification that we suggest in our answer applies to this question also.

3259. You say that the Chamber would like to see the railway receipt universally recognised as an indisputable legal title to the goods covered by the same. I find from the Indian Sale of Goods Act of 1930, which has come into force from the 1st of July, that a railway receipt has been included in the definition of documents of title to goods. Does that not meet the point of your Association. If not, would you kindly say what further steps you suggest should be taken?—We have nothing more to suggest. The present law which has legalised and made the railway receipt a document of title to goods is sufficient.

3260. You say that you are in favour of audit and examination of bank accounts by examiners. It appears to me from this and subsequent

answers that you are perhaps thinking of the annual audit carried by auditors appointed by the shareholders. The question, however, refers to an additional audit by special examiners appointed by an independent outside body. Will you kindly state whether you are in favour of such audit also?—We were thinking of only the annual audit. We are not in favour of any additional audit.

3261. *Sir Purshotamdas Thakurdas*: Are you definitely against an additional audit by an independent outside body?—Our idea is that there should not be too much of interference. If the audit is arranged for satisfactorily, we do not consider another audit is necessary.

3262. You suggest the appointment of two independent auditors, one by the directors and the other by the shareholders. You add that the object of their appointment is submission of an absolutely authentic statement of the bank's affairs to its shareholders. May I take it that this object is not secured under the provisions of the existing law?—Our suggestion is that one auditor representing the directors and another representing the shareholders would act as a greater safety to the shareholders. Such an arrangement would naturally reduce the possibility of the auditors overlooking or conniving with the management or the directors of the company.

3263. But the present auditors are, in theory at any rate, appointed by the shareholders, are they not?—Of course, they are, but after all there is only one auditor. Unfortunately, because of this there have been cases where the auditors have been found to be guilty of more than neglect. It is merely to reduce that risk that we have suggested the appointment of two auditors one by the Management and the other by the shareholders. Practically this is the custom at home where in several cases, directors appoint one auditor and the shareholders also do likewise.

3264. Is that the general practice in England?—I cannot say whether it is the general practice, but the National Bank has such a system in vogue.

3265. *Mr. Manu Subedar*: What sort of audit have you on the local accounts of the banks who are members of your association?—Some banks have their local accounts regularly audited but others do not. In the case of those banks who do not audit their accounts regularly, inspectors from the home office are sent out from time to time and the reports of such inspectors are duly audited at home by the auditors.

3266. What would be the position with regard to the non-British members of your association?—We cannot say.

3267. Do they audit their accounts in this country?—We cannot say.

3268. What would you suggest in the interests of the depositors in this country should be done with regard to the audit of the foreign banks operating in this country?—Personally we don't consider it necessary to stipulate any conditions at present.

3269. Would you object to outside audit in the interests of the general public?—We would not favour the proposal, but at the same time we would not stand against it, if Government consider it necessary.

3270. *Chairman*: You say that in the case of small banking concerns sufficient confidence might be given to depositors by the appointment by Government or some central financial authority of one auditor only. How

would you differentiate between small and large banking concerns for this purpose?—We think that smaller institutions might find the tax of two auditors' fees heavy.

3271. But your object is to safeguard the interests of the depositors?—Entirely.

3272. Supposing the depositors, in order to safeguard their interests, insisted on the accounts of the bank being audited by an outside authority, would not that be a legitimate demand from their point of view?—Yes. Apart from the fact that as a general principle we are opposed to any more interference than is necessary in the affairs of commercial banks, there would be no objection. But we do not favour the increasing supervision by Government or by any outside authority.

3273. *Mr. Manu Subedar*: At present India follows the policy of open door for any bank in the world coming and establishing itself here. Therefore not only the large institutions like the Chartered Bank or the National Bank, but even small foreign banks can establish themselves in this country and can attract by the medium of brokers large amounts of deposits.—Possibly, yes.

3274. Therefore, in the interests of depositors in some weak institutions —perhaps not British, they may be Portuguese, they may be Japanese or any other nationality—do you not think that some kind of check by Government will be a salutary thing?—Yes, it would.

3275. *Sir Purshotamdas Thakurdas*: What are the requirements of other countries regarding banks working there?—I have no information.

3276. Is there any such requirement by law that the Government have the right to have the accounts of banks audited?—I do not know. (Mr. Ingram). There is no compulsion in Japan; they have their own banking inspectors.

3277. *Mr. Manu Subedar*: Have they full freedom for raising the deposits?—Yes.

3278. *Sir Purshotamdas Thakurdas*: I wish to put to you the other point of view. The history of some of the banks that have gone down shows that the auditors did not do their duty satisfactorily. If it is considered necessary in order to inspire confidence in the investing public, would the Exchange banks have any objection to such an audit by inspectors or examiners of accounts appointed by Government?—If they are appointed by Government, the Exchange banks would have to comply. They would no doubt have to fall in with the rest.

3279. *Chairman*: It has been suggested that there should be a Government Controller of banks in each province whose functions should be to exercise supervision over the working of joint stock banks including British and foreign banks. Will you give us your views on this suggestion? I take it your answer is that you do not like this in the case of Exchange banks, but when it becomes the law of the land, you would have no objection?—That is so.

3280. *Mr. Buckley*: In other words, Mr. Cook, whatever Government may prescribe for banking as a whole in India, Exchange banks would be perfectly willing to subscribe to it?—I am sure they would.

3281. You do not advocate any exemption on behalf of Exchange banks? —No, certainly not.

3282. *Chairman*: You suggest that a company should not be allowed to call itself a bank unless it is registered under the Indian Companies Act and has an authorised and fully paid up capital of at least Rs. 5 lakhs. Would you kindly explain to the Committee your reasons for fixing the minimum limit at Rs. 5 lakhs? You do not consider that any smaller paid-up capital is safe for institutions which advertise themselves as banks and take deposits?—No.

3283. Not even the small institutions at outside mofussil stations?—As a matter of fact we do not think that institutions which cannot employ say, Rs. 5 lakhs, should be classified as banks.

3284. It has been suggested that there is at present no protection to depositors in India who deposit their money with foreign banks and that it is necessary to legislate for the foreign banks making a deposit with the Government either with reference to the number of their branches or with reference to their liabilities to the public in India, the deposit being earmarked for satisfying the bank's creditors in India. Would you kindly tell the Committee what your views are on this point?—We do not think that would be feasible.

3285. Why?—Well, it is very difficult to arrive at a figure which would be a fair proportion. Further I do not see how anything lodged in this country of a business institution could be earmarked for any particular deposits; there are no preferential deposits. Any assets which the foreign banks have must come into the general winding-up of the concern.

3286. So you do not consider that to be a practical proposition?—No.

3287. *Sir Purshotamdas Thakurdas*: Do you really think it would be so unfeasible as all that?—I do really.

3288. Supposing that a bank has taken 40 lakhs as deposits and has advanced 35 lakhs against goods in godowns; the local branch in India is quite solvent; then all of a sudden they find that they have made a loss somewhere; as a consequence they close their doors. In that case would not a provision like that indicated in the Chairman's question protect the local depositors, and would it not be a fair thing to the depositors to realise the bank's assets and to distribute them *pro rata* among the depositors who trusted that bank?—The question will then arise what figure are you going to prescribe? The extent of the bank's operations in this country will vary considerably from time to time and from season to season. I really do not know what form it could take or how in international law it could ever be possible to determine the proportion of the assets of any foreign bank in any particular country to be earmarked.

3289. If in the license which the country gave to the foreign bank to work in it, this were made a condition, I am told that it would be good in law, and it has been suggested that where non-Indian banks domiciled outside, draw as much as 70 to 75 crores as deposits, it is the duty of the Government of the country to protect their depositors against any such unforeseen losses. What objection can you, as a representative of the Exchange banks, have to the law of the country saying that whatever assets the bank has in the country shall be collected and distributed *pro rata* among the depositors?—I would have no objection, but my opinion is that it is not workable.

3290. *Chairman*: You say that you are not in favour of limiting by legislation or otherwise the sphere of operations of any class of bank as any such attempt would retard the free and healthy development of trade. It has however been suggested that as far as India is concerned no development of trade can be considered healthy which leads to the transfer of the trade from Indian to non-Indian hands. Would you favour the Committee with your views on this suggestion?—We contend that Indians get the same consideration from the banks at present here as do other nationals and that actually they are doing more and more of the direct foreign trade. Any limitation by legislation on their freedom of action would therefore hamper business and benefit no one.

3291. You see no objection to a license being required when a foreign bank commences business in India, as a safe-guard against opening of branches by banks of doubtful stability. It has been suggested that this system of license is also useful from the point of view of securing some control for the Government over the operations of foreign banking concerns with reference to the interests of the nationals of the country. What are your views on this suggestion?—We see no objection to a license. We presume that the idea of a license is to ensure banks who are incorporated abroad rendering the same accounts as banks incorporated in India under the Companies Act of 1913. Some of the Exchange banks have been in this country for many years doing most useful work by developing trade. You will excuse me if I enter into a personal matter. The Chartered Bank have been here since 1853. The Mercantile Bank is the successor to the old Chartered Bank of Asia founded in London in 1853 and the Mercantile Bank of India, London and China started in Bombay in 1853. The National Bank of India was founded in Calcutta in 1863 as a rupee company. Four out of the 7 directors were Bengalis. These facts I may say I got from the Bengal Provincial Banking Enquiry Committee's Report. In 1867 the head office of the Bank was transferred to London and the capital was made in sterling. And I wish to point out this that it is of great interest in the present discussion to think that an Indian bank which at that time had a majority of Indian directors realised that it was advisable in the interests of itself to transfer its head office to the central market of exchange; and in this way we feel that the Exchange banks which have had this long history of service to the country should not be, as has been suggested by some of the other things which have appeared in the paper, penalised as foreign banks; but at the same time we are quite sure that they would be willing to agree to any license that Government might consider necessary for the safeguard of Indian depositors, provided that they worked in complete equality with all other joint stock banking concerns working in this country.

3292. *Mr. Manu Subedar*: You said just now that you would have no objection to the Exchange banks giving particulars of their accounts in the same form in which the other joint stock banks did?—I can say that the Exchange banks are perfectly willing to agree to any license which Government may prescribe.

3293. *Chairman*: Your point, as I understand it, is this: that if the Government of the country considered that a license was required from every bank in the country whether it was an Indian joint stock bank or whether it was a foreign bank, and if one of the conditions attaching to the license was the presentation to Government of accounts in a prescribed

form, your view is that the Exchange banks will not object to that license. Am I correct?—Yes. If the Government of India made a general rule that every bank operating in this country, be it Indian or foreign would have to take out a license and if one of the conditions was that it must present its accounts to the Government in a prescribed form, I would not object to that.

3294. *Mr. Manu Subedar*: Do you think it feasible for the Exchange banks to give a statement of their Indian business isolated from the accounts of the other branches in the world?—Yes. It would of course be possible in the published statement or the balance sheet.

3295. You mean in the statement that you will have to submit under the conditions in the license?—Yes, it would of course be possible. Though the banks would prefer not to make such a return, they would have to.

3296. *Dr. Hyder*: You just now said that the Chartered Bank was founded in India in 1853; my information is that it was not founded till after the Indian Mutiny; it was started in India in 1858?—I collected all the facts from the Report of the Bengal Committee. (Laughter).

3297. *Chairman*: You say that when once a license has been given there will be no question of subsequent cancellation by any authority so long as it complies with the law, as any such restrictions will hamper the development of trade. Would you kindly explain to what law you are referring? I think you are referring to the law of the land or to any other legislation that may be passed prescribing the license?—Yes.

3298. If an enactment is passed that every bank operating in the country should get itself licensed and be governed by certain regulations, would you have any objection to the Exchange banks being licensed accordingly on the understanding that so long as they comply with the provision of the law, the license will be renewed from time to time? I think your answer is in the affirmative?—Yes.

3299. Would you not leave the question whether the cancellation of the license would hamper the development of trade or not to be decided by the Government of the country? Your answer to that is yes?—Yes.

3300. You see no objection to the proposal that banks should keep a minimum deposit of 5 per cent. of demand liabilities with the Central Financial Authority or its Agent Bank, provided that the option is given of keeping this deposit either in cash or Indian Government securities. Would not the deposit in securities take away the advantages of a centralised reserve?—If this question refers to money lodged to form part of the funds of a Reserve Bank, the answer is yes. But if it refers to a proportionate deposit with the Central Financial Authority as security for depositors, then we see no reason why such deposits should not be in the form of Government securities.

3301. *Chairman*: It has been stated before the Committee that the resources of foreign Exchange banks in India are more than ample for financing the foreign trade of the country and that some portion of the deposits received from the public in India by the Exchange banks is utilised for financing trade and industry of foreign countries. Would you kindly tell the Committee how far this statement is correct?—We do not consider that it is correct. Our experience is that banks are more often overdrawn in London and that it is more common for banks to draw their money from London than it is to send any of their money from India to London.

3302. It has been alleged that foreign Exchange banks look down with prejudice upon the indigenous banks under Indian management. Has your Association or has any one of you individually heard such a complaint before? Have you any facts and figures to rebut this allegation?—We have no facts and figures to rebut this allegation which we have only heard from outside people or seen in articles in newspapers, etc. We have no evidence of it and I am quite sure it is not true.

3303. It has also been alleged that the foreign Exchange banks do not lend money to Indian joint stock banks without security although they do large lending business among themselves on credit. Have you anything to say in regard to this statement? Can you throw any light on the existing relations between the Exchange banks and the Indian banks?—I would prefer not to answer the question.

3304. Not even *in camera*?—That I will.

3305. It has further been alleged that on hearing any and every rumour affecting a bank, foreign Exchange banks withdraw credit facilities in the matter of purchase of drafts and telegraphic transfers, even though it may be a first class indigenous bank. Have you any observation to make in regard to this statement? Here too, if you prefer to answer the question *in camera*, I shall have it transferred to that part.—Yes.

3306. Here are two questions referring to specific instances and these were given to us, not *in camera*, but in open meeting. It has been complained by the Indian Merchants' Chamber, Bombay, that while the foreign Exchange banks are willing and ready to help foreign firms, they do not afford similar assistance to Indian firms. An instance was quoted where an Exchange bank insisted on having an initial deposit with an Indian firm which wanted to do foreign business with a Japanese firm. It was found that the goods for which deposit was made by the Indian firm were delayed, that the Indian firm thereupon refused to take delivery of the goods but that the Exchange bank insisted that the Indian firm should take delivery of the goods. The matter was taken to a court of law and it was ultimately decided that the Indian firm need not take delivery of the goods and that the Exchange bank should refund the amount taken from the Indian firm. The bank in the meantime filed a counter claim against the Indian firm for the balance due on the imported goods, though later on they were advised to withdraw the suit. The Indian firm had also a decree against the foreign firm. While the Exchange bank was willing to help the foreign firm to get payment for the goods which the Indian firm was not bound to take, the same bank was found unwilling to help the Indian firm to get satisfaction for its decree against the foreign firm although the agent of the foreign firm came to India and the bank could have helped the Indian firm by helpful intervention. Have you anything to say in regard to this attitude of the Exchange banks?—My opinion is that in the absence of full details of this case it would hardly be possible to pass an opinion. We should be surprised if a bank took sides against any one party.

3307. Then your point would be that the Committee, if it wanted to do so, might refer the matter to the Yokohama Bank, giving them full details and find out from them the other side of the case?—Yes.

3308. It has been suggested that some of the foreign Exchange banks exercise a good deal of pressure on merchants to carry their insurance risk with non-Indian firms and that policies of Indian insurance companies

are accepted by them only up to certain limits and that even in the latter case the insurance companies have to furnish security. It is pointed out that a similar prejudice against the Indian insurance companies existed in the beginning even on the part of the Imperial Bank of India, but that latterly they have been persuaded to accept without limit policies of Indian insurance companies which have agreed to allow the Imperial Bank to have access to their books at any time and to supply all the information required. Would you kindly explain to the Committee what your practice is in regard to this matter and whether you will have any objection to the policy adopted now by the Imperial Bank being adopted by the Exchange banks?—It appears to us rather an extraordinary suggestion that insurance companies should allow banks to have access to their books in order to satisfy them as regards the position of the companies. This question of insurance has always been a very difficult one with the banks. I am sure there is no actual prejudice at all in the minds of Exchange banks against Indian insurance companies, but it must be remembered, I think, that when the banks insure, the agencies of the old companies that have been always insured with are closely identified with the banks. In many cases the agents are very old and good constituents of the bank and it takes a great deal for even another English insurance company with the same influence to get any fresh insurance from the banks. That is really my experience and I do not think it is likely that the banks would come to the point of taking permission to examine the books of an insurance company with the idea of insuring with it. If the insurance company can satisfy the banks that its position is sound, I think that the banks would be perfectly willing to take policies. So far as accepting policies of insurance companies is concerned, I think the final decision must always lie with our head office on the information they get from the insurance companies. There is no prejudice whatsoever.

Mr. Lamond: Regarding the examination of insurance companies books, it is done only when a bank decides to take a certain company's policy. Apart from the position of the company, the bank would want to satisfy itself about the company reinsuring its risk?—That of course is not a thing which would be constantly occurring as would be the case with insurance companies brought up in connection with export. There is no prejudice; it is merely a matter of satisfying the bank about the position of the insurance company.

3309. *Chairman*: It has been said that there is no prejudice and that it is really a question of the standing of the insurance company. In this connection it has been suggested that Associated Exchange banks should lay down standards which insurance companies should conform to for obtaining credit of the Exchange banks and that the Exchange Banks Association should thereafter publish a list of Indian and non-Indian insurance companies whose policies would be accepted by all Exchange banks. What would you say in regard to that suggestion?—I should say that the suggestion, if it was put before the Exchange banks, would receive every consideration, but I am not in a position to say whether it could be done, because the question of what company a bank is going to accept is really one for each bank to decide for itself.

3310. Supposing Government stepped in and said "we have examined the accounts of these various firms and we consider that these particular companies have obtained a certain standard of safety and therefore they are concerns with which all banks in India ought to insure"?—Government

could hardly interfere without in some way giving a guarantee that their examination and inspection is satisfactory. It must surely be left to the public to decide that question.

3311. I was talking of an outside authority; but let us assume that the Chambers of Commerce, British and Indian, formed themselves into this outside authority, what would you say to the possibility of such an arrangement?—It seems to me that it would be very difficult to refer to a particular number of insurance companies.

3312. A specific case was given to us. It was that Messrs. Currimbhoy and Sons, one of the leading importers in Bombay, used to insure their exports with the Vulcan Insurance Company. The Lloyds Bank with whom the firm had dealings said that they would place a limit of Rs. 4 lakhs as the maximum amount which could be insured with the Vulcan Insurance Company?—It seems to me that the limit of Rs. 4 lakhs is quite a generous one, if it is limit for one particular firm's insurance with that company. One could not agree to *ad libitum* insurance policies from any one firm. You will have to take from 10 or 20 firms. (Mr. Ingram: I have further information which I would like to furnish *in camera*).

3313. You would like then to go into the matter *in camera*?—Yes, the matter is confidential so far as I am concerned.

3314. *Sir Purshotamdas Thakurdas*: You very frankly told us the difficulty of the Exchange banks regarding insurance with Indian insurance companies and stated that you find it difficult to go past the older companies. It is a difficulty which I fully realize. At the same time one has to realise the natural aspiration of the Indian people for insurance companies to be built up in this land. Is it not a very natural and justifiable aspiration?—That is so.

3315. How do you reconcile that with the difficulty of the Exchange banks?—I was talking of goods which the Exchange banks themselves have to insure in this country, *e.g.*, their premises and stocks, but actually in my experience most of the stocks are insured by the merchants themselves and very largely in Indian companies.

3316. We are thinking more of what belongs to the client, not what belongs to the bank?—What belongs to the client is very largely insured by the client and not by the bank.

3317. The difficulty is about what belongs to the firm and what the firm has sold on their credit. Some Exchange banks say that they would not accept the insurance policy of such and such Indian company. In it not a real difficulty?—We thoroughly appreciate that, but at the same time we cannot really say today that there can be any binding on the part of any bank to accept a particular company. We are thoroughly sympathetic in every way, but to bind ourselves and agree that any authority should be able to say that 10 companies are good and that every bank would have to accept the policies of these companies without knowing in the slighest degree the position of these companies would be a serious thing.

3318. Do you not see that the foreign exchange business is today restricted to the members of your Association for all practical purposes, or if I may use an expression which has been repeated by other witnesses,

that the financing of the import and export business is the monopoly of the Exchange banks?—Yes.

3319. Your members take up the attitude that they will follow an ultra-conservative policy regarding insurance companies and their selection, and you would really have a clash between your members and the Indian commercial community?—May I make it clear that when I made that remark about our having been closely connected with the older companies, it was made entirely without connecting it with the export trade. I did not mean that at all. So far as actual choosing of insurance companies is concerned, the propositions are put up before banks.

3320. I have a file here containing correspondence between Indian insurance companies and Exchange banks which is not very encouraging and if I had the time, I would read out to you certain papers which would show that not a very sympathetic or reasonable attitude has been taken by some banks for reasons which we need not go into. I put it to you that if my firm ship goods worth £10,000 and sell the bill to you, it is not for you, who buy my bills on the goods and on my credit, to dictate to me what company I am to insure in. There may be vague prejudices regarding some insurance companies not being so very sound and others being quite sound, but during the last ten years there has not been a single Indian insurance company which has let down its customers. You, I am afraid, create a good deal of antagonism among the Indian commercial public by raising this question regarding insurance. You are quite right when you say that you cannot agree to somebody else deciding for you, but what the Indian commercial community feel is that you have the monopoly of the export and import trade and you should not enjoy the right of saying that you shall not insure with Indian insurance companies. A solution has to be found for this and one of the suggestions is what the Chairman put to you, namely that two representatives of your Association and two representatives of the commercial community or as many as you like, sit down and decide as to what shall be the standard which would be good enough for you to accept?—We think it would be quite a good suggestion.

3321. *Mr. Manu Subedar*: You said that banks were in close association for many years with certain well established insurance companies and it was but natural that they should go to these concerns. I would give you an instance where an insurance company established, not in England, but in Java, came here and got absolutely full freedom with the exchange banks; and another insurance company established in Calcutta, but under European auspices, got full facilities which Indian insurance companies of first class standing do not get. Would you call that prejudice or anything else?—We cannot admit prejudice, but it may be that we have not gone sufficiently far into the standing of companies, because we have not been sufficiently pressed to do so. There are no hard and fast standards to our knowledge, and there is no prejudice because a company happens to be Indian.

3322. *Chairman*: Your point is that there was no deliberate prejudice in the cases referred to, but owing to misunderstandings, or whatever it may be, things turned out so, that it appears that there was a prejudice?—My point is that we are a very conservative people and take a long time to change our ways. If you press hard enough, we probably will.

3323. We shall leave it at that.

3324. *Mr. Manu Subedar*: The prejudice has not broken down with regard to Indian companies. Have the policies of Indian insurance companies been accepted by Exchange banks without question?—Indian insurance policies have been admitted.

3325. I know frequent instances where they have been rejected?—Probably in a letter of credit issued which is in a form which has existed for 50 or 60 years where it says that insurance must be effected with such and such insurance company. That existed before any Indian insurance company came into being, and if there was any prejudice, it was directed against the insurance company of which we know very little.

3326. Do you suggest then that the passing over of Indian companies was in some cases due to the wishes of Exchange banks?—It was due to the terms of a letter of credit which might have been modified. In one instance when I was approached by an Indian shipper, I wrote Home saying that this letter of credit stipulated insurance with a particular company. but I would like to see it modified in favour of an Indian company about whose standing we were quite satisfied and by return of post, this was agreed to.

3327. *Chairman*: It has been suggested by one important Chamber of Commerce that the cost of management in banks could be reduced by Indianisation of the staff and the Chamber has also admitted that the reduction of the cost of management would be reflected in lower rates on loans given to their clients. Would you kindly tell the Committee whether you are taking any steps in this direction?—We have got no schemes, none so far as I know, similar to that of the Imperial Bank for Indianisation of the staff. Of course we are actually influenced by having a head office in London, but we are sympathetic to the extent that we give the best training to the boys on our staff, give them every encouragement, and we subscribe to the Institute of Bankers for the better education of the youth of the country.

3328. Then it comes to this; you show them plenty of sympathy, but you do not give them any jobs?—We employ quite a number of them and we are watching the success of the Imperial Bank scheme with a great amount of interest.

3329. Do you not think that it would be in the interest of both the Exchange banks and of India if you followed at least to some extent the scheme started by the Imperial Bank and made a beginning in the same direction?—The Imperial Bank scheme is experimental.

3330. The experiment has proceeded now long enough, so far as I know. Do you not think it is time for your Association to make a move in that direction?—We are not the head offices of our banks.

3331. You might think of putting the suggestion to your head office in London that the time has come when Exchange banks in India might follow the path of the Imperial Bank and perhaps make a beginning in the same direction?—We are sympathetic as you know. The difficulty arises in this way: the youth who is employed in, say, the Chartered Bank, has to give an agreement to serve in any part of the world to which he is sent. We have men in our service who have never seen India. First a man would probably be in Borneo, secondly in the Dutch East Indies, thirdly in China and fourthly Yokahama. The point is that we should get men who would observe all the conditions of the service.

3332. Supposing you do not observe the condition of liability of transfer from India, would that really operate to the detriment of the bank? So far as I am aware, a large number of employees of these Exchange banks have spent the whole of their service in India?—I do not think so. Some have put in a considerable number of years. The whole principle of the education of the youth in service is to give them such experience.

3333. That, you say, is a consideration which operates against your following the footsteps of the Imperial Bank?—I do not say that, but it might be an obstacle in the way of enlistment; we might not get the boys willing to serve in any country other than India.

3334. But no attempt has been made so far?—No.

3335. *Sir Purshotamdas Thakurdas*: Why do you take it that you will not get boys?—We do not take it. I know from my own experience that there is an Indian boy serving in one of the Exchange banks in London, at the moment undergoing training.

3336. Therefore you have not even tried or enquired whether you could get young lads who would go to these far off places?—There is no scheme.

3337. But you have not made any effort?—As I said, we have one boy in the service of the Chartered Bank.

3338. Is not one rather too small after 75 years' existence?—We have to make a beginning with one.

3339. When will the time come when you will have a hundred Indian boys?—With the increased facilities that education gives, it should be possible.

3340. *Mr. Rushforth*: Mr. Cook, I do not know if you are aware of the fact that in Calcutta an attempt has been made by an Exchange bank to keep down the European staff and employ more Indians in higher posts. I am not making this statement on behalf of the bank but I thought it would be of interest to the committee.

3341. *Chairman*: It has been brought to the notice of this committee that the Board of Trade in England have certain regulations which provide for the appointment of a certain percentage of Britishers in non-British Companies established and operating in Britain. Are you aware of these regulations and would you kindly tell the committee how you would view a provision of this sort in regard to the staff of the foreign banks operating in India?—That particular item refers to the Board of Trade regulations existing at Home and was brought into force to do away with unemployment. That provides for employment to a certain number of Britishers. I do not know what is the percentage; but certain percentage they take from London and the others from Germany or whatever country they come from. The clerks are chosen even from boys and sweepers on the roads in London. But the executive is not interfered with.

3342. *Dr. Hyder*: What is the practice of Australian banks operating in London?—They would employ British labour to a great extent, because that would save the cost of importing labour from Australia. There is no comparison between that and continental firms. There is an enormous distinction between continental firms from Germany and France and the firm from Australia.

3343. I have received certain suggestions from various quarters whose object is to improve to India's advantage the present arrangements for financing India's foreign trade and I should like to have your views on them. I shall first deal with the export trade. Am I right in assuming that when an exporter in India sells to a foreign buyer, the foreign buyer is required to open a credit with his bank, that the Indian shipper draws a draft on the foreign buyer's bank and that this draft is generally a three months' sight D. A. draft which falls due for payment three months after the draft is presented to and accepted by the foreign buyers' bank though the documents or goods are realised as soon as the draft in question is accepted by the foreign buyer's bank?—Yes.

3344. Am I correct in assuming that these bills are drawn in sterling and purchased by the Exchange banks in India at their buying rate for three months' sight bills?—Yes.

3345. Speaking broadly this buying rate of banks allows for interest for the period of transit of the bill from India to London and for the period of usance mentioned in the draft namely three months. Is it so?—Yes.

3346. Am I correct in assuming that the Indian exporter is supposed to get the value of his produce only after the period of three months *plus* the transit period of the bill and if he wants to get the value immediately after shipment, he has to pay interest for this period?—Yes.

3347. Now, you know in America the arrangements for financing their export trade was somewhat similar, but that after the establishment of the Federal Reserve system the use of dollar export letter of credit was developed. Would it be possible and advantageous for a buyer to open a rupee credit and payment for the produce exported made by a rupee bill?—Do you suggest that a buyer will open a rupee credit and thereafter will make payment for the produce exported? Whatever it may be, it would not make the slightest difference.

3348. Can you tell me whether that would operate to increase India's export trade?—No, as I have said, whether you draw in rupee or in any other currency, it makes no difference.

3349. Coming to the question of the import trade, am I correct in assuming that when the Indian importer imports foreign merchandise, he has to open a credit in favour of the foreign exporter with one of the Exchange banks here?—Yes.

3350. Am I correct in assuming that though credit is opened by Exchange banks in India in favour of the foreign exporter, as a matter of practice the foreign exporter draws a draft only on the Indian importer and not on the Exchange banks?—That is so. In regard to the previous question I may correct my reply by saying that the bulk of the import trade is done without credit.

3351. Can you tell me what this practice is due to and why Exchange banks do not allow foreign exporters to draw on them instead of on the Indian importer?—It is not customary to do so. The number of bills for the import trade is very large and they are for very small sums.

3352. I take it that these bills are generally drawn in sterling. Is it not?—Yes.

3353. Am I correct in assuming that these bills are payable by the Indian importer with interest from the date of the bills to the approximate dates of arrival of the proceeds of the bills in London?—Yes.

3354. I suppose that the interest clause arises from the fact that the Exchange banks in London pay these foreign exporters in sterling as soon as the shipping documents are handed over to them and they have to reimburse themselves for the cost of the money for the period from the date on which they part with it in London to the date on which they are able to get it back in London. Is it not?—Yes.

3355. Whatever may be the reason for this charging of interest, does it not lead to this difference between the position of the Indian exporter and that of the foreign exporter that while the Indian exporter bears the interest charges in the case of Indian exports, as shown just now, the foreign exporter is paid immediately the shipping documents are ready and passes on the interest charges to the Indian importer?—No, I do not think so. It is a question between buyer and seller.

3356. *Sir Purshotamdas Thakurdas*: It is paid from the Indians' pocket; whether it comes from the buyer's pocket or not is not the question.

3357. *Chairman*: I do not think there is any doubt in regard to interest. I was of course not referring to its incidence. As regards the latter point, my next question makes it clear. May I take it that this difference is adjusted in the price which the foreign exporter and the Indian exporter charge the Indian buyer and the foreign buyer respectively?—I do not know exactly but that is my view.

3358. Supposing an Indian importer also insists that the foreign exporter should draw on him rupee bills just as the Indian exporter draws sterling bills on the foreign importer, would the Exchange banks have any objection?—In sterling bills the banks are able to get better margin whereas in rupee bills they are not. Besides, the exchange rate will be fixed in London. If the bills will come in rupee, then there is no question of exchange at all.

3359. It has been suggested that the introduction of such rupee bills would create a discount market in India which would be useful for short-term investment by banks in India, including the Reserve Bank. May I have your views on this suggestion?—The bulk of the bills that are coming out here are fairly small and the acceptances are also small, so there is not great chance of creating a discount market.

3360. I understand that when the foreign exporter draws a draft on the Indian importer, say, for £5,000 and the draft is held by an Exchange bank in India for collection, the Indian importer has to pay that bank in rupees at that bank's rate for demand drafts and that the Indian importer is not allowed to pay it either by demand draft of another Exchange bank or by his own cheque on London on his agent. Would you kindly tell the committee the reasons for Exchange banks not allowing payment in the two alternative ways mentioned by me?—So far as Calcutta is concerned, an importer can have a T. T. and no charge by the bank is included for the T. T. In Bombay they do B. C. business on a demand basis and therefore this trouble arises. In Calcutta it does not arise.

3361. *Sir Purshotamdas Thakurdas*: What about Madras?—I have no information about Madras. But we do not accept demand draft in Calcutta. In Bombay the banks may not accept drafts of other banks. The reason is that there is much jobbing in exchange.

3362. Supposing some body says that he can give the bank £5,000 in London, I understand the bank does not accept. Why is it so?—I do not

know why they should not accept. There is no reason why the bank should refuse to accept.

3363. This is an actual case I know of?—But I do not consider it reasonable to do so.

3364. In this particular case it was necessary for the man to get out his money from London to India and again to remit it from here. Do you think that the Exchange Banks' Association will go so far as to make it a rule that the banks would be bound to accept such a transaction?—I am afraid there is nothing which we can do in the matter. Each bank may have their personal view.

3365. There is no appeal over these banks' decision. Whatever the manager says is a law. Is it not?—We would have however discussed the question in our Association, if it was put before us. It would have been a very interesting question for discussion.

3366. Therefore I take it from you that your view is that the man is entitled to undertake to pay the amount in London. Is it not?—Yes. They have no right to refuse it.

3367. Do you know of any other country in the world where its own nationals pay interest on both imports and exports?—That is the general practice with regard to all countries in the Far East, such as, Japan, Java, China and other places.

3368. *Seth Haji Abdoola Haroon*: From my own experience of trade with foreign countries I find that it is more profitable to draw out bills in sterling rather than rupee.

3369. *Chairman*: It has been brought to my notice that the Indian importer has got a minor grievance that when a draft on him comes through an Exchange bank, he merely gets a chit advising him that the draft has come and that he has himself to go to the bank and examine the documents. I understand that the custom in western countries is for the bank to post such documents to the drawee. Have you got anything to say in regard to the practice in India and whether the convenience of the importer cannot be taken into account as in western countries?—I can say that it is quite impracticable to send out our drafts for acceptance as at home owing to enormous amount of difficulties. People at home are quite alive to such things and every firm has got a responsible clerk who attends to such things readily. But here in this country what we find is that when we send round the small bills with documents attached for acceptance, we find the party only after 5 or 6 visits.

3370. *Sir Purshotamdas Thakurdas*: One may reconcile one's self to your statement with regard to petty Indian merchants and dealers. But would that apply to big merchants for example, in Clive Street, Calcutta, or the Fort, Bombay?—With regard to bigger dealers, the question is not the same, but the general practice is not to send out these bills.

3371. May I take it then that the Exchange banks would have no objection to send the bills to the big Indian dealers, as those referred to above. to their respective business places?—We won't have any objection whatsoever. Of course, the difficulty would be how to draw the line of demarcation as to whom this distinction should be shown.

3372. The whole point is that there should be no racial discrimination in regard to this matter. I am told that you send out bills to your European customers while your Indian customers, however high they may

be placed in business status, do not get the same advantage but are asked to go to the banks for their bills. Is that so?—If that is so, I should think that the European firms that are being treated as such might have asked for the privilege, and as for others, they might not have asked for the concession at all. That might be the only difference. There is no question of racial feeling at all in this. If such things are brought to the notice of the Exchange banks, they would be remedied.

3373. *Chairman*: In connection with these import and export bills, would you kindly tell the Committee whether the Exchange banks have taken advantage of the quicker communications by Air Mail and whether the saving of interest charges for a week or so rendered possible by the quicker communications has been passed on to the trading community?—In the first place, we have not yet really recognised the Air Mail. But after all there is not much difference. It is only a question of a few days so far as places like Calcutta are concerned, although it might be slightly advantageous for ports like Karachi where the Air Mail comes in first. What we really mean to say is that the difference in the number of days and the interest thereon is not a big enough margin to warrant recognising the Air Mail.

3374. Arising out of my several questions and your answers thereto, an impression has gained in my mind that perhaps there is not sufficient co-ordination between the Exchange banks and their customers. Is it not possible to have some arrangement by which the Chambers of Commerce, both European and Indian, could bring before you their actual grievances and their suggestions and then your Association could arrive at a decision in consultation with these bodies?—We have absolutely no objection. That is a very good idea, so far as we are concerned. Our complaint is that the allegations that are now laid at our door have not been brought to our notice at all till now. All these questions could have very easily been solved.

3375. *Sir Purshotamdas Thakurdas*: When the Exchange banks changed their working hours in Bombay, a representation was made to them by Indian merchants not to change their working hours. The complaint of the latter is that they were not even shown the courtesy of having a discussion across the table. I mention this to you because this subject was pointedly brought to the notice of the Exchange banks, for after all, they are your own customers and they ask for slightly better facilities, that is all?—We are always quite willing to consider all suggestions.

3376. *Chairman*: For my part, I wish that the deliberations of this Committee would result in the establishment of better relations between the Exchange banks and their Indian customers?—Thank you. We also wish for the same.

ELEVENTH DAY

Tuesday, the 2nd September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Mr. W. LAMOND.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. G. K. DEVADHAR, C.I.E.
Dr. L. K. HYDER.	Seth HAJI ABDOOLA HAROON.
Mr. V. RAMDAS PANTULU.	

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Oral examination of Messrs. G. Cook and A. R. Ingram, representatives of the **Exchange Banks' Association** was continued.

3377. *Mr. Khaitan*: In answer to Question 1, you have said in your statement that fixed capital expenditure and block should in all cases be supplied by public or private subscription of shares or debentures in the undertaking. Do you know of any organisation in Calcutta upon which industries could rely for the flotation of debentures?—I can not say; I had not thought of that. But I think there will be no difficulty in getting the public to take up debentures in any concern that appears to be sound.

3378. Does your experience extend to the middle-sized industries such as oil mills? There are quite a good number of them in Bengal?—I have no information in regard to that.

Even in the case of big industries, I could give you the instance of a jute mill under Indian management which originally could not float debentures in Calcutta and had to go to Bombay and there paid as much as 11 per cent.—It may be so; I have no information.

3379. In your next answer (in the written memorandum) you say, "Confining our attention to Jute, the principal industry of this province, we think that, everything considered, the movement of crop is in the first instance satisfactorily financed by the indigenous bankers in the districts". By 'satisfactorily' do you mean to say that somehow or other they are able to get the finance or whether they get finance at proper rates of interest from indigenous bankers.—Following on the remark that I made there, we also said "These bankers or shroffs fill a position in the districts which can never be so satisfactorily filled by established banks". That really answers your question.

3380. Do they get finance at proper rates of interests?—Yes, so far as we know.

3381. If the Indian experience is the other way about, you would not be able to contradict it?—No.

3382. In answer to Question 4, you have stated, "We do not think that any industries floated on sound lines and showing reasonable promise of success have been unable to obtain the financial assistance necessary." What kind of industries are you thinking of?—We had no special industries in view; we were only thinking of any industries that could show a reasonable promise of success.

3383. On page 121 on their report the Bengal Committee have given a list of middle-sized industries, such as rice mills, flour mills, grinding wheat, and bricks, etc., and if you refer to the next page, paragraph 217, they say, "We are satisfied from the evidence that on account of the absence of suitable financing agencies, industrial concerns in Bengal are not flourishing." Are you in a position to contradict that?—No, I am not; as a matter of fact we are not much in touch with these industries.

3384. Therefore, in view of that you would not quite stick to our next statement, namely, "banks as they exist at present are capable of supplying the finance required by industries."—Our reply was written with the knowledge that we have of what has happened in companies that we come in contact with.

3385. Nor are you very closely connected with the Indian tea-planters; I am not referring to tea gardens under European management?—No.

3386. I will read out to you a statement furnished by the Indian Tea-Planters' Association:—"There is a strong rumour prevalent in Jalpaiguri and also in Calcutta circles that there has been a sort of understanding amongst Calcutta banks that none of them would finance or in any way help any mofussil bank or loan office who might have taken up financing of any Indian tea concerns or are helping with finances for expansion of business of other sorts of Indian concerns."—My reply is that I have never heard of it. There is absolutely no foundation whatsoever in what you have said regarding the combination of banks, etc. In fact I was so taken aback by the passage you read that I did not catch properly the tail-end of the statement.

3387. The statement simply means that tea-gardens under Indian management do not get financial assistance.—I am not in a position to answer that. I do not remember having ever been asked by any tea-planter or having had any practical proposition put before me. I cannot speak on behalf of other banks.

3388. You said yesterday (I am now talking of the import trade) that after the arrival of goods in India considerable assistance was given to importers by the exchange banks in the way of deliveries against acceptance; you mentioned trust receipts. Would you please tell the Committee whether deliveries are made against acceptance to Indian firms?—Yes.

3389. Could you give us some idea of the number of Indian firms to whom such facilities are given?—I have no statistics before me. But for myself I should say that of the ordinary piece-goods firms, probably 50 per cent. get such facilities.

3390. We heard from you yesterday that in regard to imports the rate of interest is generally charged at a round rate of 6 per cent.?—I said that

it would probably be at or around 6 per cent.; that is to say, it has practically become uniform.

3391. Supposing a buyer buys on terms which include interest and it he wanted to retire the bill before maturity, what rebate would you allow? —That would depend on the call money rate.

3392. What would be the average rate?—At present I think it is ½ per cent.; but probably it has never been more than 2½ to 1½ per cent. below the call rate if the call rate were higher.

3393. There is a complaint from Indian exchange brokers—I do not know how far it is justified—that exchange banks, in case of bills, do not quote the same rates to them as to European brokers. Is there any truth in that?—I think there is no truth in it. But excuse my saying that you know that from your own experience.

But the complaint is not from big brokers; it is from small brokers who do not call on us?—Possibly, the small broker is not quoted the same rate as the man who brings a bill for say, £5,000. There is no difference made on account of the broker but on the class of the bill, if at all there is a difference.

3394. Do you know that some European exporting firms do some business in countries other than England under terms that they would draw D. P. sight bills on the buyer in the foreign countries?—No, I do not. Practically the whole of the exporting business which is done in foreign countries, is according to my knowledge done under letters of credit.

3395. Do exchange banks discount those bills?—They do.

3396. Would you please tell the Committee your idea about the resources of a party whom you would describe as 'Undoubted'?—I can give no figures.

3397. What would be your standard?—The character of the party, his reputation, his resources, his integrity.

3398. In your experience of bank references, have you noticed any difference in the standards which the banks in other countries employ and those employed in India?—No.

3399. If the exchange banks in India have set up a higher standard in India, do you think that is with a view to protecting the interests of the banking concerns?—I do not think that they have set up any higher standard. I think that in both places the banks would try and give a report which they consider the fairest from the point of view of the person about whom they are reporting and the person to whom they are reporting.

3400. *Seth Haji Abdulla Haroon*: What are your rules about the opening of credits for imports to foreign countries?—We have no definite rules.

3401. How much percentage do you keep as a margin?—There is no rule about that at all. It all depends on the nature of the commodity, the place it is shipped from and the position of the client.

3402. What is the percentage for piece-goods and sugar?—To my knowledge there is no credit opened for piece-goods. I have no experience in sugar. (Mr. Ingram) My experience is that the exporter is authorised

to draw 90 per cent. of the invoice value; sometimes it is 100 per cent. But no responsibility is accepted for molasses because of the fear of leakage.

3403. Are you charging any commission for the opening of credits?—I am afraid I am not able to answer that. A commission is usually charged only for opening confirmed credit.

3404. *Mr. Ramdas Pantulu*: Supposing a man gives security, the money-lender or the indigenous banker looks to the security and to his interest and gives whatever the agriculturist wants, whether it is for a productive purpose or not. He knows that ultimately there is enough security. If the agriculturist can be put on a system of controlled credit which prevents as far as possible utilisation of the money for unproductive purposes, would you prefer such a system to the money-lending system?—I should say it would be a good idea if it is workable.

3405. It is workable just like the industrial banks.—I should surely be in favour of it, but where would you find the men to lend money?

3406. Have you had any experience of the working of co-operative banks?—No.

3407. If these banks can be made to take the place of the indigenous banker or the money-lender and made to run on business lines so as to finance the agriculturist on a rational basis, would you prefer it?—The co-operative system would be a means of arriving at the system of control which you have mentioned, but we know nothing about it.

3408. Supposing in a particular village, there is a particular money-lender who lends at 18 per cent. and supposing there is a good co-operative society well organized and run on business lines which lends at 9 per cent., do you think the banks would be justified in giving accommodation to the indigenous money-lender and encouraging him to carry on his trade?—I do not think any control need be put on the banks, because supposing the money-lender was a perfectly respectable person, why should the bank refuse to lend him money?

3409. But supposing there is a good co-operative bank financing agriculturists on these lines, would you put your agent or a branch there to finance the agriculturists?—Banks can only be opened in places where there is a chance of making good profit. You can only work it so long as it is going to pay and for this reason it is difficult to say what might happen.

3410. If a system has proved injurious, would we not be justified in substituting for it a better system?—Undoubtedly, if some other system could be devised for financing the poor man.

3411. Therefore, if in any particular area the indigenous banker or money-lender has proved a source of danger to the agriculturist, any attempt made to displace him by the co-operative agency would be justified?—It is very difficult to provide by law that a man need not do this or that with his money.

3412. By the natural development of co-operative banks, if the money-lender is wiped out, you will not feel sorry for him?—In all probability he will have to come down in his rate of interest.

3413. Is the system by which the crops of the agriculturists are now marketed satisfactory?—I can express no opinion, we have no actual knowledge of it.

3414. Do you think the agrieulturist gets a fair return for his products when he markets them in the way he does at present?—My own impression from what one hears and reads is that he does not.

3415. Do you think that any organisation is necessary for better marketing?—The best thing is to try and get some organization to teach him thrift. After all they throw away much of their money on ornaments, etc.

3416. Let us first get at the point of the agriculturist getting his fair return; how he spends it is a different matter. I am asking you whether in your opinion it is necessary to organise a better system of marketing in order to enable the agriculturist to get a proper price for his products?—I consider that the ryot gets a proper price for his product, that is to say that his product is sold at the proper price if he did not have to borrow to the extent he does.

3417. I am trying to know whether the existence of numerous middlemen between the producer and the ultimate consumer has not a disastrous effect on the prices?—It must have.

3418. Is the number of middlemen in India reasonable?—I can express no opinion.

3419. I hope you have some knowledge about the number of middlemen actually employed?—I have no knowledge.

3420. Can you tell me how in Bengal the agriculturist's produce passes to the ultimate consumer?—I have not had sufficient actual knowledge to give an opinion.

3421. Do you think that as a result of the foreign export houses in India operating in the mofussil they have driven out the Indian middlemen from business?—I replied to that question yesterday and I do not think I can say more than I did then. In my experience the Indians are doing more direct export business than they have done before.

3422. Do you think there is any competition with regard to the prices that are offered to the villager on the spot?—I am not in a position to give a definite statement.

3423. *Mr. Devadhar*: I think you said that you have no direct knowledge of the working of co-operative institutions, and therefore I would only ask you questions about your views on the general principles that are followed in the working of these institutions. Would you kindly tell us from your general knowledge something about the rates of interest that are charged in the villages to the smaller farmer?—I have no idea.

3424. If I were to tell you that the minimum rate of interest varies between 24 to 37½ per cent. while co-operative institutions lend money at something like 12½ to 15-3/8 per cent., do you not think that the institutions which lend money at the latter rate are rendering some kind of service to the poor farmer?—Undoubtedly.

3425. The money-lender charges such a high rate of interest, because he wants to take an insurance against the risk involved in the business?—I should say, yes.

3426. If the co-operative institutions charges a smaller rate and is of help to him, probably the risk in co-operative work is smaller than the risk involved in the dealings which money-lenders have directly with an individual farmer.—The risk cannot be greater in any case if the security is the same.

3427. *Mr. Ramdas Pantulu*: The co-operative society has got the joint unlimited liability of all its members.—That means no less danger of risk in the advance.

3428. *Mr. Devadhar*: I can assure you that the constitution of a co-operative organisation secures all these factors so far as the security is concerned and that is why the risk involved is less. I hope that you as one interested in the economic welfare or advancement of the nation would, if such institutions are run on sound business lines, be in favour of co-operative societies?—Yes.

3429. I am asking this question because there is a certain impression abroad that the commercial community as a class is not much in favour of the development of co-operative institutions?—I think the commercial community look for the development of co-operative system as being the one thing most likely to help the country.

3430. I think that would also secure the object which is voiced by the general cry that there is lacking in the country as a whole a good systematic network of financing agencies.—That is so.

3431. Would not the co-operative agency be a more suitable agency to urge the smaller man in the rural parts to get finance for his agricultural industry and secure better prices for his products? Working in the interests of the poor farmer we should see that he gets full price for the produce which he raises. At present on account of financial difficulty at certain seasons he has to hurry up the sale of his own produce because he has no staying power. Supposing some staying power is created by the co-operative agency, which is another form of marketing, would you not be in favour of it?—Still there is the fact that he is not thrifty. The system should be to his benefit.

3432. Do you think that this method of helping the small farmer would be strictly in consonance with the modern spirit, namely, the spirit of teaching people to manage their own affairs?—I have no knowledge of how co-operative societies are run.

3433. You can take it from me that they are run on sound business lines. My question is whether such an organisation would be strictly in consonance with the modern spirit which requires people to manage their own affairs.—Anything which is going ultimately to gain the point you have in view, *i.e.*, to get the full price for the ryot, would be satisfactory.

3434. And productive of useful results.—Yes.

3435. With reference to your answer to question 4 regarding Regulation of Banking, you said that you would certainly be in favour of giving facilities for a well conducted institution of a co-operative type which would secure the fullest benefit to the farmer. If there were good co-operative agency to receive deposits and distribute funds among the members of the institution, would it not be harmful to allow a branch of either a joint stock bank or of the Imperial Bank to be started there? Supposing in a small area which contains about 50 or 60 villages there

was a provincial co-operative bank or a district central co-operative bank carrying on work in the interests of the agriculturists who are members of such institutions and which was able to get deposits and attract money, would you allow any joint stock bank or Imperial Bank to open a branch there in competition?—I can not express an opinion whether any bank should be allowed to do so or not.

3436. Do you not think that such an institution would be better able to teach the agriculturist the habit of thrift and it would be to his interest if some of us could carry on propaganda on such lines?—I think so.

3437. Have you heard of big co-operative trading firms in Denmark?—No.

3438. As a matter of fact vast quantities of exceedingly fine butter are brought into London by steamers from Denmark. Have you any knowledge whether your Exchange banks in London give any special facilities to these co-operating transporting agencies in Denmark?—That business would probably be financed by banks in Denmark.

3439. My question was, if in the beginning the development of such an institution required any special concessions, what would be the attitude of exchange bankers?—There could be no question of concessions. The merchant could not allow any concession or benefit to the shipper.

3440. Can I get some idea as to the rate of dividend paid by the exchange banks as a rule?—They are all published.

3441. But at present what is the rate?—It may be 5 per cent., 8 per cent., or 10 or 20 per cent.

3442. Sometimes it might be 22 per cent? I do not grudge you the higher dividend which you are getting as a matter of good business done. When you have to deal with a concern like the co-operative organization which is not likely to be a competitor to you and if such an institution were to require some kind of concession, would you not give it as business people?—I am afraid we cannot consider such questions at all.

3443. In answer to question 13 regarding special concessions in respect of special banks, *e.g.*, co-operative banks, you say you would not recommend any concession. I have given you some idea about the general working and the effect of co-operative institutions: if such institutions which are carrying on work in the interests of the poor farmer stood in need of some help from Government, do you think it is waste of tax-payers' money as somebody put it?—I should say that if Government themselves were satisfied that the result was going to be to the benefit of the general public, they would be justified; otherwise, I could see nothing in it.

3444. Even when such a numerous class as the agriculturist from whom the bulk of the revenue comes feel it necessary in the earlier stages to get some facilities?—Our reason for saying 'no' is that as a general principle we consider that it would be inadvisable to have interference by Government in any commercial concern that is going.

3445. But though this is technically a business concern, we are not seeking for interference without any corresponding benefit?—If it is the considered opinion of Government or of the Assembly or whoever it may be, then I think it could be done.

3446. *Mr. Ramdas Pantulu*: Are you aware that in many countries such as South Africa, Canada and Australia, the State gives large financial aid to the co-operative movement?—I have no information about co-operative business in any other country.

3447. *Mr. Devadhar*: If you generally approve of such a policy being adopted by Government, would you advocate a similar policy being adopted or sympathetically examined in respect of co-operative institutions in the matter of finance?—I can only say that I still consider that the less interference there is by Government, the better off these institutions will be. These questions must be left entirely to the tax-payer or whoever it may be who decides it.

3448. *Mr. Devadhar*: I am trying to see whether you are of opinion that such a scheme would be in the interest of the public?—Certainly, it is in the interest of the public.

3449. Similarly, there are other institutions with whom the Indians come in contact. I should say the Imperial Bank. Supposing they expect some concession from the Imperial Bank, what have you to say?—What form of concession you mean?

3450. I mean cash credit on the security of the agricultural paper?—I should feel it is an ordinary business transaction provided the bank is satisfied that the investment is sound. The primary duty of the bank is to see that the investment is sound.

3451. Do you therefore think that this is a case for consideration?—I cannot agree that it should be obligatory on certain institutions to advance moneys to any other institutions.

3452. I do not say that there should be an obligation, but the bank should give a sort of concession. Is it not?—If it is in the interests of the institution, joint stock banks should try to encourage and develop the co-operative system. If they do so, the conditions of the ryot in general will be improved. But I do not suggest that it should be laid down in law that they are bound to assist them.

No, we do not want law, but we want to build up a convention.

Chairman: May I suggest to my colleague (Mr. Devadhar) that Mr. Cook is not the proper person to whom he should put these questions. The business of the Imperial bank is quite different from the business of the exchange banks. After all, the Imperial Bank is at the time a State bank which holds free balances of Government. Much has been said on the question in the Provincial Committee's reports and it would be for the Committee to consider those questions. You should put these questions to the representative of the Imperial Bank. Mr. Cook is representing the Exchange Banks and as he says he knows practically nothing about the co-operative organization in India, it is not proper that he should be put these questions.

Mr. Devadhar: I know it would not be proper for me to do so, but I was simply trying to know the general opinion on the question.

3453. *Chairman*: So far as Mr. Cook is concerned, I understand that his opinion is that exchange banks would not consider that there was sufficient consideration for them to grant any concession. Is it not?—Yes.

Therefore, I think we should put these questions to the Governor of the Imperial Bank when he is before the Committee as a witness.

Witness: I want to make it clear that whatever I have said on the subject of the co-operative banks is not spoken on behalf of the Exchange Banks Association. It is my personal opinion.

Chairman: Mr. Cook says that it is his personal view and not the view of the Exchange Banks Association.

3454. *Mr. Ramdas Pantulu*: Mr. Devadhar asked you a question whether the Imperial Bank should not discount certain amount of the agricultural paper and your answer was that it depends on the nature of transaction. It is for the bank to decide. Supposing in other countries arrangements are made regarding discounting the agricultural paper and to earmark a proportion of resources of a bank for agricultural credit, would you agree that this kind of business should be helped by a State bank?—That is a matter which should be discussed when the State bank question comes up for discussion. I myself cannot express any opinion.

3455. The Imperial Bank is having the benefit of free balances of Government and hence it is partly a State bank. So, it ought to do this sort of business?—I express no opinion.

3456. *Mr. Rushforth*: You said that you do not object to the creation of the industrial bank provided there are certain chances of success. Now, you know that there are certain restrictions placed on the working of the Imperial Bank whereby they cannot help industrial concerns. Do you think you will have any objection to the modification of this rule which prevents the Imperial Bank giving any assistance to the industrial concerns?—I do not think we should pass any opinion on this.

3457. *Dr. Hyder*: You know that some of the banks advance moneys to the public for instance, the Chartered Bank and National Bank. Have you any objection to the proposal that they should have in India local boards to give advice?—No.

3458. I do not know whether due to prejudice or due to the ignorance on the part of the public, there was a certain cloudy atmosphere and a suggestion was thrown to your head offices in London that in order to create a better atmosphere between the exchange banks and the public here in India there should be local advisory committees. These committees have only to express their opinion. My view is that just as some of the exchange banks whose head offices are in the dominion have advisory committees in London there might be advisory committees in Bombay and the managers of the branches of exchange banks should consult the advisory committees as regards granting loans, etc.?—Do you mean to say the head office should delegate authority to these committees?

3459. No, I mean to say the exchange banks should consult these committees. There are Australian banks, Canadian banks having to do business with London and also India. So these banks should have local boards who will scrutinise matters. In view of the prejudice or ignorance some instances were brought to your notice yesterday and do you not think that it would be better if some people here were associated with such banks?—Our experience is that there was no trouble up to now for want of such local boards. But I may point out there are three exchange banks who have already appointed local boards.

3460. One of the function of these local boards would be to remove the prejudices that may exist if they are brought to their notice. What do you think?—We think if there are any such grievances they should be

brought to the notice of the Exchange Banks Association and we are sure we shall remove those grievances as quickly as the local boards would do.

3461. Now, you are operating in various countries. The accusation against the exchange banks is that they drain away funds which they obtain in Indian money market and employ in other countries. Is it so?—As far as our experience goes, we find that the banks operating in India have actually drawn more money from London than they have sent. Money moves to any part of the world where it can best be employed.

3462. Is it a fact that there is a service of free remittances in London?—No.

3463. So far as I am aware there is a service of free remittances in the United Kingdom. Is it so?—No, it is not correct. Besides it is not a practicable proposition for any one in London to cash a cheque free on any other part of the country.

I am reading from a book entitled "The Imperial Banks—Baster." In it the author refers to a proposal of Mr. Goodenough and the proposal is supported by Prof. Foxwell. The passage says, "He proposes to extend to the whole Empire the service of free remittance which the later development of our banking system has made so perfect with the United Kingdom?"—He says that he proposes.

3464. So, do you think that the exchange banks would accept this suggestion of having a fixed exchange and no fluctuation?—I cannot see how you are going to make the exchange fixed. If you fix a rate in London, in other parts of the world it would not be the same.

It would ultimately have this effect that the rate of interest would be one and the same. Let me read to you further. He says: "The recent amalgamations, giving English joint-stock banks control over institutions operating in all parts of the Empire, seem to have made this more practicable. Fixed exchange would certainly strengthen and greatly facilitate trading relationships within the Empire and it would probably have the further not so obvious but none the less important effect of stimulating, etc."

3465. So, will your association take up this matter and give us their opinion?—It is very unlikely for them to do so. If the Committee so desire, we shall ask our head offices to express their opinion and send it on to you.

3466. They should have fixed exchange in the Empire. At present it happens that in the case of South Africa and London the par is fixed and there are very little variations?—Yes, but what would be the effect of it?

3467. The effect of that would be the equalisation of the rate over the whole area?—So also the equalisation of supply and demand must come in.

3468. If there is any rise in the rate, it is sure that somewhere money would flow; that is certain?—In this way you would stop money going round the same time.

3469. *Mr. Manu Subedar*: With regard to the scheme which, my friend Dr. Hyder told you, may I know that at present you charge for transfer of funds between various centres in India?—Yes.

3470. Even customers of the National Bank in Calcutta and Bombay have to pay. Is it not?—Yes.

3471. Your association is a very old association formed some years ago. Is it not?—Yes.

3472. Has it new members coming in?—Yes.

3473. In the beginning they had British members?—Yes, it is natural because exchange banks were formed by them in the first instance.

3474. They meet frequently and pass resolutions. Is it not?—Yes.

3475. When the resolutions are agreed upon they must be carried out by members?—Yes.

3476. I find that there are several rules which state what a member should do and should not do?—Yes.

3477. These regulations are made in order that the members should not disorganise the market. Is it not?—Yes.

I have noticed rules 2, 3, 4, 18 and 24?—Is it Calcutta copy of rules?

3478. Yes, it is a copy of the rules in Calcutta. I want a copy of the Bombay rules also. Can you get it for me, Mr. Ingram?—A new one is being published.

3479. These rules lay down that no bank shall draw credit bills except at rates mentioned in the rules?—What rule are you referring to?

3480. I am talking about the rule regarding the buying of bills?—There it is stated that certain minimum differences were agreed to by the banks. That is meant for application whenever there is a fixed exchange. There are certain differences and it is necessary for the bank to have a margin between the buying and selling rates.

3481. It is stated here "rates for sterling D. A. Credit bills drawn on London." These are fixed in London?—No, the rate is not fixed.

3482. How is it arrived at?—The rate at which the bank will buy depends on competition. One rate may be 1—5 15/16th the other may be 1—5 31/32nd but there will be a difference between buying and selling rates.

3483. It is mentioned "No bank shall buy such bills except at differences, etc."?—As I have said the banks have to keep a margin for covering these differences.

3484. What I want to say is this that there are certain rules which the members of the association are expected to follow?—Yes.

3485. Similarly you have in rule 18 the charges for commission and in rule No. 24 you have laid down that demand drafts and T. T. of other banks should be accepted for B. C's.—Yes.

3486. In answer to the question whether you have any remarks to make with regard to the exchange rates which are charged for the conversion of rupee into sterling or other foreign currencies, and *vice versa*, or for the remittance of funds to and fro, you say "competition sees to it that these never get out of hand". I want to put it to you that the competition to which you refer is competition within the range allowed by the resolutions which are agreed to by all members of your Association?—The fact is that it has absolutely nothing to do with the rate of conversion of the rupee.

3487. The rate for the day is fixed by a Committee of your Association. Is that so?—No rate is fixed like that. Our point is that there is sufficient competition.

3488. We are told that the ruling rate is so and so. What does that indicate?—That refers only to the general quotation given by banks. Only the B. C. rate is fixed by the Association and nothing else. The banks are free entirely to quote any rate they like.

3489. *Mr. Buckley*: The usual usance for export bills is 3 months' sight?—Yes.

3490. There is no arrangement between banks as to the rate at which they should buy 3 months' sight bills?—No.

3491. In other words, it is an every day occurrence in every export market of India that these 3 months' sight bills are purchased at different rates. In fact these rates are absolutely governed by the competition in the market?—Yes.

3492. When a merchant sells forward bills, he sells them on a basis of 3 months' sight?—Yes.

3493. Therefore, in order to facilitate business, in order that the merchants shall know when they make a contract the rates at which they can deliver the bills, and in order that the broker may know what rates to put on those contracts, the banks from time to time fix what is known as schedule differences?—Yes.

3494. *Mr. Manu Subedar*: But the difference is fixed?—Yes, on the ruling rate.

3495. There is no competition between the banks on this rate?—As I told you, this difference is fixed from time to time.

3496. And the rule is that all members of your Association should abide by this difference?—Yes.

3497. Now regarding the remittance business. You admit that the bank's business is not primarily in interest dealings, but that it also makes some profit in the conversion of the rupee into sterling and *vice versa* on T. T. remittances?—Yes.

3498. In regard to this remittance business, there is difference between the buying and selling rate?—Yes.

3499. This charge which a bank makes to its constituents is the same in the case of all banks who are members of your Association?—No, it all varies.

3500. A suggestion has been made that the exchange banks are having a monopoly in regard to these remittance charges and that their rates are not only arbitrary, but also high. What have you to say on that?—I cannot understand in what way the exchange banks have a monopoly?

3501. You say that there is free and open competition in this matter and that the rate is not fixed and that no two banks agree on it?—Yes, there is a good deal of competition, and the rate is not fixed.

3502. Supposing there is an Indian joint stock bank who is willing to do exchange business. Your Rule 24 will naturally operate against that bank?

3502(*a*). *Chairman*: Rule 24 says that demand drafts and T. Ts. of other banks who are members of the Exchange Banks Association may be accepted in payment of B. Cs. Does it follow that the demand drafts and T. Ts. of banks who are not members of the Exchange Banks Association

will not be accepted in payment of B. Cs.?—They will not be accepted. That is the rule.

3503. *Mr. Lamond*: This acceptance of drafts and T. Ts. of other banks is really a concession to the importers?—That is so.

3504. *Mr. Buckley*: You said that the T. Ts. of joint stock banks and others who are not members of the Association will not be accepted in payment of B. Cs. Is it not open to an Indian joint stock bank doing exchange business and which wants to have its drafts accepted by the members of the Exchange Banks Association to apply for admission as a member of the Association?—Certainly, they can do so. At any time they are welcome.

3505. *Mr. Manu Subedar*: Are individual banks who are members of your Association, members of British Chambers of Commerce?—Yes, mostly.

3506. And they share the views of their own British Chambers of Commerce?—That is a difficult question to answer.

3507. Are any of the Exchange Banks members of the Indian Chambers of Commerce?—No.

3508. A complaint has been raised that the operations of the exchange banks in this country mar the progress of Indian joint stock banks, Indian insurance companies and other Indian undertakings. What have you to say in regard to this?—We do not think it is so.

3509. The complaint of the Indian joint stock banks is that you attract the deposits from mofussil centres at cheaper rates and therefore they are unable to compete with you, because their borrowing rates are high and their lending rate should naturally be higher than yours. What have you to say on this?—You can take the reverse and the more natural view of the matter, for we are doing only legitimate business and we offer only a lower rate of interest on our deposits than what the joint stock banks offer.

3510. May I take it that the operations of the Exchange banks in the interior are really intended to help the import and export trade direct without the provision of an intermediary?—Yes.

3511. It will therefore help the parties better to have direct business relations with you in the matter of exports and imports from and to the interior?—Naturally.

3512. With the result that the small intermediaries who are helping in the matter of internal trade as also the Indian joint stock bank which helps them, suffer. Is that not so?—That is really a hypothetical question.

3513. The ultimate result of this will be that the exchange banks will monopolise the internal trade as well and that the Indian joint stock banks will lose their right of financing internal trade. In other words, the exporter and the importer in the interior will in future go to the exchange banks direct instead of having recourse to Indian joint stock banks?—If he does so, he does it for his own advantage.

3514. It has also been suggested that the deposits which you receive from this country are used only for the benefit of the people outside the country?—We are very sorry to hear that.

3515. Of course, the true state of affairs will be disclosed when you furnish us with detailed statements showing the deposits you have drawn

from India from Indians and Europeans as well as details about the way you have made your finances?—Well, we will then leave it at that.

3516. The general feeling is that some kind of restrictions should be placed on the operations of the exchange banks, one of which is licensing their operations. In connection with this licence you said you will have to refer to the Head offices of your banks. I suppose when a licence is taken, you will have to take a general permission from your head office to carry out the terms of the licence?—That will be a natural sequence.

3517. Your Association has got some members who are not British?—Yes.

3518. The other suggestion is that the licence by itself would not help Indian institutions and that therefore there should be a restriction placed on the exchange banks from accepting deposits in this country. You know such a provision exists on non-Nationals in foreign countries such as the United States of America. What are your views on this?—If that is done, it would be depriving the Indian public of a safe method of disposing of their money. But I ask you, if you impose such restrictions do you expect that these deposits would go to the Indian joint stock banks? Or would they go into hoards?

3519. Some of them may be invested in Government securities, some may go into the Indian joint stock banks, some money may go to finance industrial concerns, while some may be invested in the Indian exchange banks that might come into being. But my point is, that if such restrictions were placed on the exchange banks on their operations in this country with regard to their deposits, would they still prefer to operate in this country?—The question is again hypothetical, but the view of the Association is that many banks would cease to operate in this country under those restrictions.

3520. Then would you be willing to register yourselves in this country under the Indian Companies' Act as any other Indian joint stock bank and do regular banking business as they do in this country without any restrictions being placed on your deposits?—The Association would very probably consider the point when such a condition is imposed.

3521. The Bombay Chamber of Commerce argued some days ago that the method of regulating the bank rate was most unsatisfactory. You would admit that, compared to other countries, the range of minimum and maximum is much higher in India than in other countries. Is that not so?—I have no information of other countries. Much must depend on the condition of trade or the balance of trade. (Mr. Ingram.) In India, it usually varies from 7 to 5 while in England this year the variation was from 6 to 3.

3522. Would it be desirable if the variation were reduced and the maximum which the rate reaches could be cut down?—It would facilitate trade and help the economic development of the country.

3523. It has been suggested that the high points to which the rate is pushed up is due to Government interference, and in this connection the Bombay Chamber stated that it ought to be free from Government interference. What would be the view of your Association? You have said on page 8 of your memorandum, "should be the province of the Central Banking Authority—at present the Imperial Bank of India".—That is so.

3524. Should nobody else interfere with it?—So far as possible, no.

3525. And when the Reserve Bank is established, it should be done by the Reserve Bank?—Yes.

3526. Do you say that it should be regulated on the same basis as in other countries with regard to money conditions?—And also with regard to international conditions.

3527. *Sir Purshotamdas Thakurdas*: The memorandum now before the Committee was sent in by the Exchange Banks' Association at Calcutta. There are exchange banks associations elsewhere in India too.—That is so.

3528. One in Bombay, one in Madras, one in Karachi and one at Rangoon?—Yes.

3529. So that there are five exchange banks' associations. Are they all detached and act on their own?—They are all detached and act independently.

3530. Are the exchange banks which are members of the various associations common all through?—Yes.

3531. And still there are five associations which are detached one from another?—Yes.

3532. Therefore, it is quite possible that what may be in vogue in Calcutta may not be in vogue in Madras?—That is so.

3533. The nature of business is common to all the five?—Yes.

3534. Then what objection can there be to the application of common rules to all of them?—If you read through the rules of any of the local institutions, you will find that they are the same more or less; only they deal with local conditions.

3535. Would one be right in saying that the exchange banks' associations perpetuate the local conventions, one differing from another, instead of bringing them all together?—I do not imagine there are many differences; it is merely a matter of each one deciding what is advisable.

3536. I am given to understand that the rules of the five associations differ in important details?—I do not think that they do.

3537. Between Bombay and Calcutta, there is one difference, which you discussed yesterday, regarding penalty?—Yes.

3538. There may be similar differences in other places?—There may be.

3539. For practical purposes, there could be no objection to one common association of all the exchange banks all over India?—No, there would be no difficulty. In fact it has been mooted already and we expect that the associations will be consolidated in a year or a year and a half.

3540. Then there would be common rules for admission, common rules for brokers, etc.?—Yes.

3541. Supposing the Central Bank of India wanted to be a member of the Association, what would be the process?—They will have to apply in the ordinary course.

3542. Is it by ballot? What is the custom?

Mr. Buckley: If the Central Bank wanted to apply for admission, say, in Calcutta, they would write to me as the Chairman of the Association. I would then send the letter round to the members and suggest that they should be admitted, and I am quite sure that every member would agree.

But Mr. Buckley, if in Calcutta one of the banks felt that they had a grievance against the Central Bank and for that reason opposed the admission of the Central Bank, what would you do?—First of all, I would make all possible endeavours to remove that grievance so as to get unanimity. But if that were not possible, I would say that the majority of members would be quite sufficient.

3543. You have no system of ballot?—No.

3544. I wonder whether your Association have much to do with clearing houses?—We all use them. All our members are members of the Clearing Houses.

3545. If I may give you an instance: The Punjab National Bank wanted to be a member of the Bombay Clearing House. They were a member of the Lahore and Calcutta Clearing Houses. But in Bombay another bank had a grievance against the Punjab National with the result that for three whole years the Punjab National Bank were kept out. They wrote to the Indian Merchants' Chamber, but the latter interceded without success. Now, do you not look upon that as a substantial handicap to a bank?—I think it is unfair undoubtedly. I do not think any bank should be left at the mercy of one or two banks. But I have no knowledge of the circumstances of this case.

(The Secretary to the Committee was requested to write to the Punjab National Bank to get all the correspondence; failing that, to get all the papers from the Indian Merchants' Chamber, Bombay.)

3546. *Chairman*: If I may intervene at this stage: Non-British banks as distinct from Indian banks are always allowed to join your Association; why should Indian banks as such be debarred?—There is no reason why they should be debarred. My point is that our association is open to membership to all banks that are doing exchange business.

3547. If an Indian bank does exchange business?—There should be no difficulty, unless it is on grounds of the size or the reputation of the bank.

3548. *Sir Purshotamdas Thakurdas*: Mr. Cook, in India I suppose you are aware that there are two money markets?—That is so.

3549. One, the Indian money market or the Bazaar, and the other, the banks. Do you think there is any real live touch between these two markets existing at present and can India depend on one broad Indian money market without any prejudice and inspired by one aim, namely the development of Indian trade?—That of course is really, I think, a very great bar to progress. It is because of this that the banks have real difficulty in assessing the actual financial position of Indian merchants. It is really one of the greatest difficulties that we have. Banks do not know what a merchant has borrowed from the Bazaar and the Bazaar does not know what he has borrowed from the banks.

ELEVENTH DAY—*contd.*

Tuesday, the 2nd September 1930

PRESENT :

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E, (*Chairman*),
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Mr. MANU SUBEDAR.
Dr. L. K. HYDER.
Mr. V. RAMDAS PANTULU.
Mr. W. LAMOND.
Mr. R. W. BUCKLEY.
Mr. G. K. DEVADHAR, C.I.E.
Seth HAJI ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

When the Committee re-assembled after lunch Messrs. G. B. Morton, G. Cook and E. W. Christie, representatives of the **Bengal Chamber of Commerce**, were orally examined.

3550. *Chairman*: You gentlemen represent the Bengal Chamber of Commerce?—Yes.

3551. I shall examine you on the memorandum submitted by the Chamber and also on certain connected questions. You say that the fixed capital and to a certain extent the current requirements or floating capital of an industry are obtained by capital subscribed by the public. It is often suggested that the public in India do not take very well to investment in industrial shares or debentures. Will you kindly tell us your experience in this matter?—The public subscribed freely from the year 1919 to 1921 or 1922 to new industrial issues but subsequently owing to the slump they have been shy to invest their money in industrial debentures.

3552. It has been suggested that the banks may play a useful part in obtaining such capital by examining the soundness of new enterprises and taking up shares of those that are sound and subsequently selling them to the public. Have you any views on this suggestion?—We consider that it is not a part of the business of a commercial bank to take up shares in new industrial concerns.

3553. In that matter you follow the practice adopted in England?—Yes.

3554. It is said that the existing banks cannot help industries to any appreciable extent as the deposits are short-term and the advances required are for long term. Have you anything to say on this point particularly and can you give an idea of the period for which accommodation is generally required by industries from banks?—We concur in the views expressed by the Exchange Banks Association before this Committee that banks which accept only short term deposits should not advance long term loans.

3555. Can you give us an idea as to the nature of the accommodation required by industries from banks?—As for the jute trade the dealers want accommodation generally from August to November or December, after

which, when they realise their stocks, they liquidate their debts. As for the period of advances for the tea industry, it varies slightly but they are all only seasonal advances.

3556. It is stated that the existing banks suffer from a lack of technical knowledge of industries and therefore do not consider it safe to interest themselves in the financing of industries. Do you think there is any force in this suggestion?—Banks do not consider it safe to invest their money in long term advances when they accept only short term deposits, apart from the question of knowledge of the industry itself.

3557. What about the provision of working capital either on personal or tangible security?—So long as they are seasonal advances, we do not mind, and there too the question of technical knowledge about the industries does not arise.

3558. You say that the current requirements of industries are obtained from the Imperial Bank or from other banks by hypothecation of stocks. It has been pointed out that the Imperial Bank insists on keeping the stocks under its own lock and key and that the arrangement is not very popular as it gives undue publicity and interferes with the free disposal of stocks. Will you kindly let us have your views on this point?—As regards the latter part of the question, it might be so; as regards the first part, the banks insist on having the control of stocks, although the guarantee by the managing agents might obviate this to some extent.

3559. You say that in many instances advances are made by the managing agents.—Can you give the Committee some more information about this system of managing agents, for example, in what industries the system obtains and what part they play?—In Calcutta the main industries in which the managing agency system obtains are jute, coal, cotton and tea. The duties of managing agents are very wide. Speaking generally, managing agents as the name implies act as managers for groups of companies and are also agents for marketing the produce of such companies for purchasing the requirements of those companies. Frequently managing agents also employ their own funds for financing the requirements of the companies in their group.

3560. You say that when an industrial venture is sound, the facilities available are fully equal to the actual requirements. In answer to the previous question you have, however, said that agents or directors in whom public have confidence are able to obtain all the facilities required. It has also been suggested by one of the provincial committees that it is the name of the promoter rather than the soundness of the concern that matters. Will you kindly explain what your experience has been in this matter?—A prudent investor examines both the soundness of the concern and also gives the greatest consideration to the reputation of the promoters and others interested in the Company.

3561. You have said in your memorandum that when an industrial venture is sound, the facilities available are fully equal to the actual requirements, but you told us a little while ago that whatever the nature of the industrial venture might be, no bank would agree to lock up its funds on long term advances. That being so, how can the facilities of an industrial concern, even if it is sound, be equal to its actual requirements? —We mean to suggest that the requirements of the working capital are always forthcoming.

3562. Supposing an existing concern wanted additional capital for block, or extension of the business or things of that sort, then what will happen in those cases?—As we have already said, banks are very reluctant to tie up their funds in long term advances.

3563. To that extent you are prepared to admit that there may not be adequate facilities available to industrial concerns?—So far as financing the block is concerned.

3564. *Mr. Manu Subedar*: With regard to working capital also will not these concerns require advances from year to year on renewal?—At the height of the season sometimes they require overdrafts, which are of course cleared up at the end of the season. The usual practice for banks is not to finance the whole of the working capital, as they have reserves to fall back upon.

3565. You said commercial banks cannot help industries, but according to you, commercial banks can help industries with a portion of their working capital?—Yes.

3566. *Chairman*: You say the usual rate of interest on loans and advances is 1 per cent. over the bank rate with a fixed minimum. Will you kindly say whether this applies to advances by the Imperial Bank or advances by other banks also?—It applies both to the advances by the Imperial Bank of India and other banks.

3567. You say that the principal security is the hypothecation of stocks, but that frequently there is charge on block or other similar charge as collateral. It has been alleged by some witnesses that the Imperial Bank makes a distinction between the cotton and jute industries, and that whilst in the case of jute mills it does not require a mortgage of the block against loans, in the case of cotton mills it insists on such mortgages. Have you anything to say in regard to this?—This depends on the soundness of the concern or stability of the trade in which it is engaged. We find that banks have different practices in regard to different industries.

3568. You say that exchange and local banks are somewhat reluctant to finance industries freely as they do not wish to have their funds locked up. Will you kindly explain a little more fully the part played by the exchange banks in the matter of financing industries?—We have nothing to add to what Mr. Cook on behalf of the Exchange Banks Association told you on this matter, except to say that the banks make only seasonal advances and not long term advances.

3569. You say that the original finance required for the capitalisation of industries should be subscribed by the public and that the banks are prepared to supply the working capital. It has been brought to the notice of the Committee that credits are also required for extensions improvement of equipment, etc. It is stated that circumstances might arise preventing a new issue of capital by the industrial undertaking being made for a long time and that in certain countries banks provide the necessary finance within limits and subject to certain conditions. Have you any suggestions to make in regard to Indian industries in similar circumstances?—In our opinion large extensions and improvements should not be undertaken unless the industry is in a healthy condition. New issues of share capital are a means of obtaining advances but a more usual method is by the issue of debentures. Another method is by capitalisation of profits by the issue of bonus shares, etc.

3570. You say that you are not in favour of trade banks as the business of such banks would be very restricted. Have you considered the advantages of specialised knowledge of particular trade available to such banks and are these advantages not sufficient in your opinion to outweigh the other disadvantages of restricted business, etc.?—My Chamber considers that the advantages are insufficient to warrant a trade bank.

3571. You say that attempts made in the past for the establishment of industrial banks have been disastrous. Will you tell the Committee what attempts you are referring to? Can you state what in your opinion were the reasons for the failure of such attempts?—We have really nothing to add to what the representatives of the Exchange Banks Association have said on the point.

3572. You say that the idea of establishing an industrial bank has much to commend it, but it is doubtful if such banks would have necessary support from the investing public. Can you think of any steps for enlisting such support?—We think that at present nothing can be done on account of the world prices which have not yet been stabilised. Until we get at that stage it is rather premature to consider the suggestion.

3573. Will you tell the Committee what your views are on the suggestion to guarantee the interest on the capital of such banks in order to create confidence in the investing public in such institutions?—The Chamber is not in favour of such guarantees.

3574. What you Mr. Cook said in the course of your examination as representative of the Exchange Banks Association applies here also, namely, that you are not opposed to the idea of the establishment of an Industrial Bank on sound and proper lines. Is that so?—That is right.

You say that the amount of credit afforded to a merchant by the exchange banks is governed by his means and standing. Can you explain how the means and standing of an importer are ascertained by such banks? —From the information collected from bankers and the bazaar report.

3575. Some witnesses have suggested the formation of Information Bureaus for supplying confidential information about the status of all merchants. How do you view this suggestion?—The Chamber favours the idea, but the difficulty will still be there regarding the supply of confidential and reliable information.

3576. Have you anything to say with regard to the suggestion that all merchants should have their accounts audited and a balance sheet prepared from time to time for the information of the banks?—We consider it absolutely necessary.

3577. You say that clean credit is available when the drawer of the draft is financially substantial enough to warrant the bank's accepting the drafts with recourse on him only. So far as you are aware, is such clean credit given to Indian merchants as well as to European merchants?—We would slightly modify our answer so far as this point is concerned and would alter it to say that clean credit is really only used by such firms who have London offices and whose names are so well established that their drafts are readily accepted by the London Discount Market. We do not think that any Indian firms are financed in this way.

3578. Are you referring here to the custom of the Exchange Banks?— The question is whether clean credit is really available when the drawer of

the draft is financially substantial enough to warrant the bank's accepting the drafts with recourse on him only. That is no doubt true, but we do not think that this form of drafts is very often used.

3579. You say that a discount market in India for discounting export bills will be advantageous. Will you explain a little more fully what advantages you expect from such a discount market?—We think that if such a discount market is established in India it will be advantageous as it will increase the credit facilities in the country. But the difficulty is that at present bills are insufficient to create a bill market.

3580. If the export bills now in use became rupee bills, then would that be sufficient to create a discount market in India?—Yes, it will be possible then.

3581. That would apply to both export and import bills?—Yes, in so far as we have the bank's standing acceptance. That is the only way by which we can form a discount market.

3582. And that would afford greater facilities for short term investments on the part of the banks?—Yes.

3583. If you form a discount market in this country, do you not think it is likely that there will be sufficient number of bills to create what you call the discount house in London?—I doubt, but still there is a possibility.

3584. *Sir Purshotamdas Thakurdas*: Which will create a better discount market, export or import bills?—Export bills will make a better discount market.

3585. *Chairman*: You say the existing facilities for warehouses are satisfactory and fully meet the normal requirements of trade. It is stated in respect of bonded warehouses in Calcutta that their charges are high, their methods are dilatory and that there is no security or guarantee given by the bonded warehouses about the quantity of goods warehoused. Have you anything to say in regard to these points?—We have nothing to add to the views expressed by the Exchange Banks Association on this matter.

3586. It is said that facilities for handling jute are quite satisfactory. Will you please tell us your experience?—We think they are quite satisfactory.

3587. *Mr. Manu Subedar*: How is the jute trade financed before it reaches Calcutta?—Calcutta firms when purchasing jute at their mofussil agencies employ their own surplus funds first, thereafter borrowing for their further financial requirements from the Imperial or other bank against hypothecation of stocks and mortgage of properties and when available the guarantee of the Managing Agents.

3588. Have you heard of any complaint made by jute dealers in Calcutta that if the jute is exported through foreign licenced steamers some advances are made by banks against the bills of lading, whilst in the case of jute exported through Indian-owned steamers, such as those owned by Raja Janakinath Roy and others, advances are not made against bills of lading issued by the Indian shipping company?—The mills stipulate when buying jute that it is to be despatched from mofussil stations only by those steamer companies with which they have already entered into an agreement.

3589. So then, the complaint is correct?—As far as I am aware, the mills have not altered their rule.

3590. *Chairman*: It has further been alleged that Indian merchants who import from abroad cannot do so on D. A. terms and that they can do business only on D. P. terms, that in order to encourage the import of Manchester piecegoods, facilities are now being offered to merchants to take delivery of goods by advances against the security of the imported goods and that in the case of other commodities, such facilities are not freely available. Am I to take it that the answer given on behalf of the Exchange banks might also be taken as the Bengal Chamber's answer to this question?—Yes.

3591. It is complained that it is possible for Indian exporters to do export business only if the foreign importer secures a confirmed letter of credit in some first class London bank in favour of the Indian exporters but that some of the buyers in foreign countries whose financial position is undoubted do not like to incur the expenditure of opening credits. The present practice is said to place the Indian exporter at a disadvantage. Have you anything to say on this point? Here too, shall we take it that your answer on behalf of the exchange banks is also the Bengal Chamber's answer?—Yes.

3592. It has been brought to the notice of the Committee by some witnesses that in the case of some Indian firms satisfactory references are not supplied to the overseas merchants by the Calcutta banks, although in the case of European firms with considerably less resources very good bank references are given. Have such complaints been brought to the notice of your Chamber? Here again would you say that the answer given on behalf of the exchange banks is also the reply of the Bengal Chamber?—It is so.

3593. It has been suggested that there should be a Government Comptroller of banks in each province whose functions should be to exercise supervision over the working of joint stock banks including British and foreign banks. Will you let us have your views on this suggestion? You gave us certain views on behalf of the exchange banks. Do those views represent the views of the Bengal Chamber?—Yes.

3594. It has been suggested that the appointment of an independent auditor by Government will increase the confidence of the public in the institution. Will that advantage accrue if the Directors, and not Government, appointed the auditor?—No, we do not think that it will be necessary. If this is a question of the second auditor, we are of opinion that the same advantages will accrue.

3595. Do you expect any special advantages from your proposal to have an auditor appointed by the Directors in addition to the auditor appointed by the shareholders? Mr. Cook, you answered a similar question on behalf of the exchange banks. May I take it that that is also the answer of the Bengal Chamber?—Yes.

3596. If there were a Government auditor, would you make any distinction between Indian and foreign (including British) banks?—I can say that we make no distinction between Indian and foreign banks. If it were considered necessary by Government that an auditor should be appointed, we cannot say no.

3597. You say you are not in favour of placing any restrictions on the business of banks. May I take it that your idea is that banks should do all legitimate banking business? Is it your idea that banks should be free to do all legitimate business?—Yes.

3598. It has been suggested that some important bank failures (*e.g.*, Alliance Bank) in India were due to the banks' indulgence in other than legitimate banking business and that banking business should, in order to prevent such lapses, be defined by the Legislature. May I have your views on this suggestion?—Even if that were so, we could not recommend that banking business should be defined by the Legislature.

3599. *Mr. Manu Subedar*: In reply to a previous question you said you were not in favour of placing any restrictions on banks. You know there are certain regulations with regard to banks in England and also elsewhere. Would you be opposed to the introduction of such regulations in India?—We are definitely of the opinion that there should be no restrictions on the business of banks.

3600. You say that persons and firms styling themselves "bankers" do not attract deposits from the public to the same extent as an institution calling itself a "bank" and it is enough if the use of the term "banks" is restricted by legislation. Will not your suggestion lead to some of the mushroom banks using the word "banker" instead of "bank" and make them interfere prejudicially with the operations of the indigenous bankers?—You see there are two classes of moneylender, one who probably in most cases does business with his own capital and takes very little of deposit, and there is the indigenous banker who in some parts of India makes a regular practice of getting deposits. When we wrote this reply, we were really referring to moneylenders.

3601. Is it your intention that these indigenous bankers who do make a practice of taking deposits should in accordance with the original proposals of the Government of India be required to register themselves under the Indian Companies Act?—Yes.

3602. Therefore you would make a distinction between those who habitually take deposits and those who do not?—That is so.

3603. And those who habitually take deposits, whether they are joint stock banks, or loan companies or indigenous bankers, should, in the opinion of your Chamber, be required to register themselves under the Companies Act?—That is so.

3604. Are you correct in saying that persons and firms styling themselves bankers do not attract deposits from the public to the same extent as banks? In cases in which indigenous bankers attract large deposits from the public, would you in the interests of depositors like to lay down any regulation governing these operations? I think what you have already told us on behalf of the exchange banks meets this question too?—Yes.

3605. You say that there should be an obligation on the bank to set aside adequate sums for reserve and depreciation funds. Will you kindly say what limit you will place on the amount of these funds and whether they should bear any proportion to paid-up or subscribed capital?—We consider that adequate sums should be set aside for reserve and depreciation funds.

3606. What percentage would you recommend?—50 per cent. of the capital.

3607. It has been pointed out that exchange banks whose main business is the financing of foreign trade have latterly begun to compete with the

Indian joint stock banks in regard to the financing of internal trade also and that this competition is an unequal competition. It has therefore been suggested that the operations of the exchange banks should be restricted to the financing of foreign trade. Will you kindly state your views on this suggestion? May I take it that your answer on behalf of the exchange banks also represents the view of the Bengal Chamber?—Yes.

3608. It has been suggested that deposits received from the public in India should be utilised for the development of Indian trade and industries and that exchange banks should be made to follow this rule. Have you any objections to this suggestion?—The Chamber does not see how any actual deposits could be earmarked for any particular purpose. But we can say from experience that the deposits which are taken in India are utilised in India and invested in business here.

3609. It has been pointed out that non-national banks in some of the foreign countries such as United States, Germany, Japan, Italy, etc., are required to take out a license for carrying on banking business in those countries, and it has been suggested that similar procedure should be followed in India also. Do you agree with this suggestion? If not will you kindly state your reasons? Here too, I take it that your views expressed on behalf of the Exchange Banks' Association represent the views of the Bengal Chamber?—Yes.

3610. If there is a system of license, will you state whether you would make a difference between British and other foreign banks?—We replied fully to this yesterday.

3611. In answer to question 6 in Section 3 of your memorandum you refer to your reply to Question 3, but there is no reference in that question to the proportion of cash balance to time and demand liabilities and the publication of balance sheets. Will you kindly say whether you think it necessary to prescribe by legislation a definite proportion of cash balance to be maintained by banks?—We do not think that there should be any law controlling the actual proportion of cash balances to time and demand liabilities; in our opinion, it is impossible to do so.

3612. If a Reserve Bank is established, the member banks will be required to keep a minimum deposit of a certain percentage of their demand and time liabilities with the Reserve Bank. Will you kindly say whether the member banks should, in addition, be required to keep any definite proportion of cash balance with themselves?—Our opinion is that apart from the regulations which may require a certain amount of cash to be lodged with the Reserve Bank, when it comes into being in India, by the member banks, there should be no legislative requirement about the banks keeping a certain amount of cash balance.

3613. Do you think that there are any other matters which should be provided for by legislation, *e.g.*, the Shareholders' Association has referred to (*a*) prohibition of loans to directors so as to prevent abuses, as in the case of the Alliance Bank, the Peoples' Bank and the Amritsar Bank; (*b*) to auditors as was the case in the Bengal National Bank; and (*c*) definition by law of the rights and obligations of Directors, etc.—We do not think it would be desirable to enforce prohibition of loans to directors. That would lay a heavy penalty of any big and important and, therefore, valuable director or business man joining a bank as director. In regard to (*b*) of your question, we can only recommend that there should be double audit. In regard to (*c*), I am afraid this is more or less a legal question and we are unable to reply to it.

3614. *Chairman*: You say that the regulation of expeditious liquidation is a matter for the court. It has been suggested that in England some kind of control is exercised over the liquidators of joint stock banks which has the effect of exercising a chastening influence on liquidators and shortening liquidations and keeping down costs. Will you kindly state your views on this suggestion?—We would approve of any proposal which would improve matters in this respect.

3615. It has been suggested that the grant of power to the Governor-General in Council to order transfer of winding up proceedings from one province to another might also lead to expeditious liquidation in the case of banks whose creditors are in more than one province. It is said that in England the Lord Chancellor has such power. Have you anything to say on this suggestion?—We also agree, if it is going to improve matters.

3616. It has been pointed out that in England, creditors have the power to nominate a liquidator of their choice unless the majority of Directors have filed a statutory declaration that within 12 months from the commencement of the liquidation, the debts of the company would be fully paid. Are you in favour of a similar provision being made in India? —We see no objection to follow the procedure adopted in the United Kingdom.

3617. It is said that advance payment to depositors in the case of the Alliance Bank was facilitated by the guarantee of Government and that such advance payment was a great convenience to the creditors of the bank. Are you in favour of a provision under which either the Reserve Bank or an Association of Bankers should be charged with the duty of giving such a guarantee after careful examination of the assets of the insolvent bank?—Yesterday, when I gave evidence on behalf of the Exchange Banks Association, a proposal was put forward to the effect that there should be some institution which could take over the bank which was in difficulty provided that it could be run for three months.

I referred to the Canadian practice—We think that would probably be a most satisfactory way of arranging this matter.

3618. You say that any question of amalgamation or reconstruction must be left to the shareholders or the creditors of a particular institution. It has been suggested that the expert advice of the central banking institution or of the bankers' association might be useful in regard to this matter although the final voice should be left to the shareholders and the creditors. Will you kindly state your views?—We agree that the advice of the central banking institution or of the bankers' association would be useful in the matter, but we think that the final voice must rest with shareholders and creditors.

3619. It has been suggested that the cost of liquidation could be reduced to a minimum, and that the assets of banks in liquidation should rest in, and the winding up done by, a special official receiver on a fixed percentage of remuneration. Have you anything to say on this suggestion? —We see no objection to the suggestion; presumably such an official receiver could appoint a reputed firm of accountants to do the work if he considered it necessary.

3620. It has been suggested that when an application is made by a shareholder for instituting criminal proceedings under the Companies Act against a bank, the complainant should be required to obtain a certificate from the Advocate General to the effect that there is a *prima facie*

case, before the complainant can institute proceedings. Will you kindly tell the Committee what your views are on this suggestion?—This is a legal question and we have no views on it.

3621. From a practical point of view, what would you say?—We are in favour of anything that could be done to strengthen the position of a bank, from being falsely accused in any way. We cannot suggest any remedy.

3622. You say that it would be advantageous if branches of banks of first class standing were opened to co-operate with the indigenous bankers and assist in linking them up more directly with the main money markets in India. Will you kindly develop your point a little more fully? Cannot such co-operation be started in respect of existing branches of banks of first class standing? What are your ideas about bringing about such co-operation and the linking up of the indigenous banker with the money market?—We are entirely in favour of this being done, but we cannot suggest in any way how it could be done, the difficulty being that banks cannot be expected to open in districts where they are unlikely to get enough business to pay their expenses, but we do think that with the gradual increase of joint stock banking in the country, the linking up of the indigenous banks with money markets will naturally come.

3623. That does not meet my question. My question was whether co-operation of the nature contemplated could not be started in respect of existing branches of banks of first class standing. There must be many stations in India at present where there are branches of first class standing. Will it not be possible to start this co-operation at those places? If such co-operation were a practical proposition what stands in the way of its being started immediately at stations where branches of banks of first class standing already exist?—It could be done in a way by discounting paper. We think that the Imperial Bank with its many branches must really be in a position to say whether it is possible to link up the money markets with the branches they have opened.

3624. Does not that lead to the inference that the opinion expressed by the Chamber was sent up without any careful consideration of the problem?—Of the problem as to how it is to be carried out, yes.

3625. You say that until a central banking authority can be created, the regulation of the bank rate should be in the hands of the Imperial Bank without interference from the executive government. It has been suggested that so long as the control of currency is in the hands of Government, Government should have a voice in influencing the bank rate, as the bank rate affects the currency reserves of the country. Will you kindly state your views on this suggestion?—In the answer which Mr. Ingram gave this morning he said he would be prepared to add that the executive government should undoubtedly have the right to influence the bank rate with reference to international considerations. May we give that as the opinion of the Chamber?

3626. The Bengal Chamber's views, I take it, are the same as those of Mr. Ingram, that Government must be allowed to have some voice in the matter when international questions came into play?—There were three considerations which he mentioned.

3627. *Mr. Manu Subedar*: The question which I put to Mr. Ingram this morning was: 'As in other countries, would you expect the bank

rate to be regulated with reference to money conditions in the country and with reference to the gold reserve with the central authority?' Mr. Ingram said that he would add another condition, *viz.*, a reference to international situation. But in that answer the whole point was that the regulation of the bank rate should be with the central banking authority, whoever they were, and not with the Government. The present question goes beyond that; it is for you to say whether you like it to be with the Central banking authority.—We think that Government should certainly have a voice in influencing bank rate, but we think that the final decision should rest with the Imperial Bank or the central banking institution.

3628. *Mr. Khaitan*: But if the central banking institution has the power of note issue and the control over the reserves, what occasion, do you think, there would be for Government to interfere in the fixing of the bank rate?—When the control of currency is taken away from Government and put in the hands of a central authority, we do not think that Government would in any way interfere with the bank rate, which would be governed by the same principles as in other countries.

3629. Let me make my question clearer to you. At the moment in India the power of issuing notes and therefore the corresponding duty of maintaining the currency reserves are with Government. When you say that Government should have a voice, it naturally follows that if it is to maintain the currency reserves Government must have a voice. Do you mean by that that Government, in voicing its opinion, about the fixing of the bank rate, should be guided by the very principles by which a central bank in another country which has the power of note issue would be guided?—Yes, we do.

3630. *Mr. Rushforth*: You say that Government should have a certain amount of say in the matter. Should that say be restricted to an advisory capacity or should they have executive power?—I should say that it should be in an advisory capacity only. The managers of the institution which would control the bank rate should certainly have the last say.

3631. In this connection, I think the Bombay Chamber stated that in England Government had powers in certain circumstances to say that the bank rate must be put up. I have not been able to get this statement confirmed. Is that actually the case or not? For instance in August 1914, was it an actual order of the Government of Britain that the bank rate should go up to 10 per cent. or was it done at the instance of the Bank?—I could not say.

3632. *Chairman*: Here is a book by Mr. Parker Willis on foreign banking systems in which he says: "The post-war experience had a very powerful influence in confirming many in the opinion that a central bank should be at hand as a mechanism for controlling and directing movements of prices, for forcing other (non-central) banks to accept the orders of the Government, and to co-operate with it in carrying out its projects, and for controlling the money market situation on behalf of Government operations". Then he goes on, with regard to the Treasury; "As a consequence of this situation, there has been steady tinkering on the part of the Treasury with the discount rate in the effort to keep it low, and hence to facilitate the flowing of new Treasury obligations, while there has been equally steady effort on the part of the Treasury to control and direct the actual policy of Reserve Banks". That refers to America. What is stated here bears out what the Bombay Chamber told us the

other day.—The Chamber could not suggest anything else in the face of evidence that it is customary in all countries for Government to have the last word.

3633. *Sir Purshotamdas Thakurdas*: What I would like to understand clearly from you is this: firstly, whether you think that in India it is desirable that the control of credit and currency should be in one hand or that it should be allowed to continue, as at present, in two hands. What do you think is the ideal you would work up to?—The feeling of the Chamber is that the control of credit and currency should be in one hand.

3634. At present credit is controlled by the Imperial Bank and currency is controlled by Government?—That is so.

3635. Until therefore there is a change in the present position, is there any suggestion which your Chamber would like to put forward as being feasible?—No suggestions are put forward at present beyond the fact that the matter will be consolidated by the creation of a Central Bank.

3636. Till then you have no suggestions to make?—No.

3637. But you said just now in the course of discussion that what happened in regard to the Imperial Bank rate, when it was raised to 8 per cent. a year or eighteen months ago in spite of the opposition of the Governors of the Imperial Bank, is a thing which you do not approve of?—Yes.

3638. And I understood you to say that you thought that it would be desirable if Government only advised the Imperial Bank as to what their view was, but left the final decision with that bank—with the exception that Government must have powers which in case of emergencies they can use.

3639. An emergency like the War, or something like what happened in 1914? Surely 18 months ago, it was not an emergency?—It appeared presumably to Government, who were responsible for their policy, as the only thing they could do.

3640. So that what you consider an adequate emergency in India is somewhat different from what would be considered an emergency in England, because in England in the whole career of the last one hundred years, there has been only one instance when the Government of Great Britain forced the Bank of England to raise the rate and that was at the out-break of the War—The Government here are not in the same position as they are in England in regard to the control of currency.

3641. So I say that here you would define emergency as something somewhat different from what has been defined as applicable to England under similar circumstances?—I am afraid that we are not authorised to go beyond what we have already stated. As things are, we would leave the matter in the hands of the Imperial Bank until a central institution is created.

3642. Are they in the hands of the Imperial Bank now?—Presumably the Imperial Bank fixes the rate.

3643. Inasmuch as the Imperial Bank publishes the bank rates, you think they are in their hands?

3644. *Chairman*: As the Imperial Bank has no control over currency operations, it would be impossible for that Bank to be the final authority in

regard to the bank rate in the present conditions.—We are not in favour of a bolstered bank rate; at the same time it is difficult to say definitely that we can condemn the position which at present makes it necessary.

3645. *Sir Purshotamdas Thakurdas*: It is not my intention to ask either for your condemnation or approval. But I do feel that when you give evidence on a matter like this you must give us, if you will, something more definite than mere generalities. The Imperial Bank and people connected with it have been misunderstood and even criticised. One does not mind that, but when we are talking across the table to persons of your knowledge and standing, we might hope to get some assistance. If you would rather not go beyond what you have stated, I shall leave it at that, but let us recognise facts as they are.—We do not really see how we can very much go further than the answer given, *viz.*, that the dual control by the Government of India and the Imperial Bank is unsatisfactory.

3646. What we want is some further amplification of the next part of your answer where you say that 'until a central banking authority can be created, the regulation of the bank rate should be in the hands of the Imperial Bank without interference from the executive.' I am asking you whether the intention of that is that your Chamber desire that the Government of India, should not interfere with fluctuations in the bank rate?—The intention is that they should not put it up to 8 per cent.

3647. Take for instance the position of the Imperial Bank to-day. They have a cash balance of 27 crores and the bank rate is 5 per cent.—It is only temporary on account of the policy of the Government.

3648. Therefore, is your suggestion feasible under present circumstances?—We cannot suggest anything; we do not see what can be done.

3649. I am trying to bring out whether your suggestion is feasible or not. I have given you two concrete instances. Under present circumstances, so long as Government is in control of currency and when Government have always the power to make money sufficiently expensive, should they go on as they are doing? Cheap money is what is required at the present time and it is out of proportion to the bazar rate. The whole point therefore is, as long as the control of currency is under Government, can the Imperial Bank effectively control the bank rate?—It cannot.

3650. *Mr. Manu Subedar*: You have said in your memorandum that the dual control by the Government of India and the Imperial Bank is unsatisfactory and therefore you would like to see this system changed and a unitary control established. When that unitary control is established, there would be no occasion for Government interference, because the bank would then fix the rate with reference both to credit and to currency?—That is so.

3651. *Chairman*: Does that modify the statement you previously made that even under those conditions, it might be necessary for Government to interfere?—There might still be occasion for interference.

3652. You say that the reason why bills are not freely used in India is due to the difficulty in ascertaining the financial standing of the signatories to a bill. Will you kindly explain how this is ascertained in countries outside India and what special difficulties there are in India?—We do not think that in the present circumstances there are likely to be enough bills on the market to create a discount market.

3653. My question was how the financial standing of the signatories to a bill is ascertained in countries outside India and what special difficulties there are in India on the subject?—It is much easier to find out the correct financial standing of firms in other Western countries than it is in India, for the reason already given that the two money markets of the bazaar and the banks make it very difficult to know how much a firm may be owing in other places; and therefore it is very difficult to gauge the financial position of such firms. So long as that is so, it would be difficult to have their bills freely circulated in a discount market.

3654. It has been stated that the other reasons for this state of affairs are (1) the high stamp duty on bills and (2) lack of encouragement by banks in regard to discounting facilities and that if the stamp duty is reduced and banks were prepared to discount bills endorsed by approved indigenous bankers or shroffs at slightly lower than the bank rate, the bill habit will be greatly promoted. Have you any views on this suggestion?—We have no views beyond those already expressed. The difficulty in the way is the difficulty of finding bills more than the stamp duty on them or the hesitation of the banks to discount them. If there is a possibility of getting better information as to the condition of affairs, the difficulties mentioned would be removed.

3655. *Chairman*: You say that the arrangements of banks maintaining their own godowns work satisfactorily. It has been suggested that the present practice of banks holding stocks in their own godowns under their own lock and key is not quite acceptable to the commercial public and that the establishment of a central godown by all the banks working in the locality, whose warehouse receipts might be accepted as a collateral security for advances would be advantageous from all points of view. Will you kindly state your views on this suggestion?—I do not think that the present system is unsatisfactory and we doubt whether any warehouses which would be started by different banks would be at all acceptable.

3656. *Mr. Buckley*: You state in your memorandum "Banks release goods on trust receipt when in their opinion the standing of the party concerned warrants their doing so. The Chamber considers the practice to be satisfactory, and they have no suggestions to make with regard to it." The system in vogue in India of trust receipt is very largely used as an easy form of credit. The principle of the trust receipt is quite sound, but unfortunately many cases have occurred where the terms of trust receipts have not been adhered to and frauds have been perpetrated. Do you not think that an offence of this nature should be made a criminal offence under the Indian Penal Code so that the banks may be encouraged to continue this particular form of credit?—Yes we would favour that the offence be made a criminal one.

3657. *Mr. Manu Subedar*: It has been suggested that if the banks give facilities for discounting at a lower rate to the shroffs, the discounting habit will be encouraged. I want to ask you whether you approve of the provisions under which the Imperial Bank can borrow from the Currency Reserve, when the bank rate goes up to 6 per cent. But in this case they can only borrow at the bank rate; they cannot pass on their benefit to their constituents. Would you favour the arrangements until the Reserve Bank is started by which the Imperial Bank can borrow at 1 per cent. under the bank rate on first class bills?—We think that the Imperial Bank should not be allowed to borrow money under the bank rate. It should be at the bank rate.

3658. But the market will not get any benefit of it, if it is at the bank rate?—In that case we think in an ordinary way the bank rate may go up.

3659. But there will be no elasticity with regard to the banking reserve in the country. Is it not?—When the bank rate goes up at the time when the bank is borrowing from Government, money is very tight. The actual amount which is taken from Government is not large compared to the requirements of the country as a whole. It would have to borrow again very quickly as the market is tight. Therefore, we think it would not serve any purpose to make any alteration.

3660. There is a very interesting suggestion by your Chamber and it is this. Super-tax is paid where the profits exceed Rs. 50,000 in respect of small banks. A suggestion is made that this prevents the amalgamation of small banks. In that case would you favour the exemption of small banks which amalgamate from super-tax for five years after such an amalgamation?—I think we have replied that we would not be in favour of it.

3661. One of the objects of this Committee has been how to encourage banking on sound lines in this country and if there were any serious impediment in the way of small banks from being amalgamated, this is one of the ways as I have suggested to you. It would be in exceptional cases and would not apply to the joint stock banks. In such cases would you favour it as an exceptional case?—I should prefer to refer this question to the Chamber and then reply to it.

3662. *Mr. Khaitan*: If it is not your intention that some relief should be given, why have you replied in this way? I thought it implied some relief?—We have not thought of the definite form of relief.

3663. *Chairman*: Their recommendation is quite different. They say further in their memorandum "Readjustment of the super-tax regulations is desirable so that the starting point should bear some definite relation to the capital employed."

3664. *Dr. Hyder*: You say "Your Chamber has no suggestions to make with regard to the establishment of bonded warehouses". You know salt is a commodity which is stored in the bonded warehouses or some other godowns. What is the difference between a salt *gola* and a bonded warehouse?

3665. *Mr. Khaitan*: I may tell you that in Calcutta Government salt *golas* are solely used for storing salt only.

3666. *Dr. Hyder*: In respect of these salt *golas* merchants importing salt pay duty when the salt is issued out of the *golas*. Would you favour a proposal on these lines that the duty should be paid only when the goods are taken out of the bonded warehouse and the duty should not be paid when the goods are taken into the bonded warehouse?—Please repeat the question.

3667. *Chairman*: His point is this. In the case of salt the duty is paid at the time the salt is cleared from the Government *golas* but in the case of articles stored in the bonded warehouse duty is paid when the articles are to be put into the warehouse; undoubtedly there is a question of drawback but he wants to know whether your Chamber would support the arrangements under which the duty in the case of articles stored in the warehouses is paid when the articles are withdrawn from the warehouses?—Customs authorities want the duty paid at the time of clearance from the steamer.

3668. *Dr. Hyder*: Apart from the question whether the Customs authorities would allow or not, may I know if your Chamber would favour such an arrangement?—We do not think that the Customs would allow this procedure. There was a case when a merchant had put into the warehouse certain goods and those goods were not taken delivery of. Then the Customs had to sell the goods and they suffered a loss. So, I do not think that the Customs would agree to this proposal.

3669. I am simply asking your view?—We shall put the question before the Chamber and they will consider this point.

3670. You say "the allocation of profits to dividends should be forbidden until all preliminary and flotation expenses have been paid." My difficulty is in connection with the flotation expenses. Would you specify definitely what the preliminary and flotation expenses would be?—Preliminary expenses which include flotation expenses also include solicitors' fees, registration fees and stamp duty; cost of printing prospectus, application forms etc., and articles of association; also cost of advertising.

In short the expenses incidental to the formation or promotion of a company.

3671. Do you show the item of good-will separately in the balance-sheet?—Yes.

3672. *Mr. Lamond*: You say that one direction in which protection might be given to banks would be to insist on numbers of the shares or stock bought and sold being specifically stated in the contracts. Would you also be in favour of insisting on transfers being lodged for registration with banks within a fixed period—say two months?—Provided the Stock Exchange agree. At present they do not like to press the matter of registration.

3673. *Mr. Rushforth*: I would draw your attention to paragraph 176 in the report of the Bengal Provincial Banking Enquiry Committee in connection with the preference given to Europeans by the jute mills. It is also referred to in an article which appeared in the "Statesman". I think it will be better if your Chamber could throw some light on this point?—Would you like to have written evidence on the subject?

3674. No, if you can tell us something on the subject just now, it will be very interesting?—At the end of that paragraph it has been stated "with a few exceptions the mills do not allow the Indian brokers to call on them to sell jute." From personal knowledge I know that this statement is incorrect. There are only a few mills, one or two, who do not encourage Indian brokers to call on them. The rest of the mills have, I should say, more Indian brokers calling on them than European. In cases where Indian jute sellers pay 1¼ per cent. brokerage the ¼ per cent. represents "guarantee commission" paid to the European broker for undersigning the contract thereby guaranteeing the fulfilment of the contract to the mill. One of the largest group of mills in the season 1928/1929 purchased 41 per cent. of their requirements from European sellers and 59 per cent. from Indians. In the following year the percentage was European 21 per cent. Indian 79 per cent.

3675. *Mr. Khaitan*: We want to know what quantity was purchased from the European brokers and the Indian brokers?—I have no figures available at present.

3676. *Chairman*: There are two other paragraphs also in the Bengal Provincial Committee's report and what is really wanted is the proportion done through Indian brokers and also through the European brokers.

3677. *Mr. Rushforth*: If you look at the figures of the Imperial Bank from 1921 to date, you will notice a dimunition in the amount of bills discounted but there is an increase in cash credits. It has been stated that the cash credit is partly responsible for the unpopularity of bills. Do you think that competition between the two systems that continue is responsible for this?—Probably so. But I do not say that in any way it will create a discount market.

3678. *Chairman*: Do you mean to say that the development of cash credit system of the Imperial Bank has interfered with the development of the bill system?—No, it has not interfered exactly.

3679. *Mr. Rushforth*: One would have expected the development of the bills with the growth of the Imperial Bank but instead of that the bills are getting less and less year by year. The other day I also noticed in a Home paper that the bills in the London market are getting less owing to the fact that merchants prefer loans or cash credits. If that is so in the highly developed market like the London market, is there any hope to develop the bill market in India?—We are doubtful whether the market can be created.

3680. *Chairman*: You have not stated there any reason. You simply say that owing to the competition of these two systems it is not likely that the bill discounting market will develop in India?—No, but I am saying that it is one of the reasons which Mr. Rushforth has put forward.

3681. *Mr. Ramadas Pantulu*: Do you think it will be to the advantage of the agriculturist if he has facilities to store his produce for a favourable market?—We have no intimate knowledge of the affairs of the agriculturists in the mofussil centres. We are not in a position to say. Do you refer to any particular kind of produce?

3682. For instance, the Punjab Banking Committee have reported that in the case of cotton, facilities for storage will not be of any use, but in the case of wheat it may be useful and so on. I would like to know whether in the opinion of your Chamber it will be advantageous to the middle class cultivators and agriculturists if they had storage facilities?—With regard to jute, the raiyat has a certain amount of storage facilities. They are almost always small men who store their goods in their own houses and they bring out just enough for sale whenever they are in need of money to meet their current expenses.

3683. Do you know about the conditions of other crops?—They are also much the same.

3684. You cannot say whether they have got adequate facilities or not?—No, I cannot say.

3685. Supposing a middle class agriculturist or cultivator wants to pay his land revenue or has to meet other urgent expenses. Are there any credit facilities available at present for him to meet his urgent demand?—He is almost always financed by the village mahajan.

3686. Are you aware that when such loans are taken, the mahajan generally couples the contract to sell him the produce at a very unremunerative price to the producer?—What we have gathered from

local information from Hooghly is that the ryot first of all tries his mahajan and failing him he goes to his landlord. Generally the rate of interest varies from 3 pies to 1 anna in the rupee per mensem. Generally these transactions are simply recorded in a small account book of the mahajan, no mention of the rate of interest or the period for which the loan is taken being made. In cases of non-payment, the mahajan files a suit within 3 years from the date of the transaction, and the court generally allows him interest at 6 pies in the rupee per mensem. There is another form of transaction, which is registered and can be sued for up to the end of 6 years in case of non-payment.

3687. Have any members of your Chamber acquired first hand knowledge of the conditions of the agriculturists, their operations, their financial requirements, etc., by going into the interior of the country?—None of us has done so.

3688. *Sir Purshotamdas Thakurdas*: I understand the Bengal Chamber of Commerce controls the working of the Royal Exchange at Calcutta. Is that so?—Both the institutions are, of course, connected with each other. The Bengal Chamber holds its office and its committee meetings, etc., in the upper flats of the Royal Exchange Building.

3689 The popular impression is that the Royal Exchange and the Bengal Chamber of Commerce are actually controlled by one and the same party. Is that the correct position?—Mr. Buckley: That is not so.

3690. *Sir Purshotamdas Thakurdas*: May I know the nature of the business conducted at the Royal Exchange?—Merchants generally meet there during the middle of the day to discuss and transact business.

3691. Is it a fact that no Indian is allowed to be a member of the Royal Exchange?—So far as we are aware there is no such restriction. As a matter of fact we know that Mr. Joy Chunder of Messrs. S. C. Chunder and Co., and a few other Indians are members of the Royal Exchange.

3692. The information given to me while in Calcutta was that Indians are not permitted to be members of the Royal Exchange?—That is not a correct state of affairs. We know that Messrs. Gazdar & Co., were also members of the Royal Exchange. As a matter of fact, these Indian merchants who come to deal business matters there have got a separate room adjoining to the room allotted to the members of the Royal Exchange House, and then we talk across the counter and transact business. (This answer was subsequently modified by the witness as follows:—Such a rule was not in force in the past for we know of several Indian firms who are members. The Gazdars were members).

3693. Am I correct in saying that the Royal Exchange building floor is not open to Indians?—I do not think it is correct to say so, because I have seen several Indians there. I am not aware whether any Indians have been refused admission to the Royal Exchange as members.

3694. *Mr. Khaitan*: As regards the ante-chamber which you spoke of, is it not a fact that passes are given only to those persons who are members of the Royal Exchange and that no self-respecting Indian would go there under such circumstances and that those Indians who really go there have got to go in as under-brokers of the firm who is a member of the Royal Exchange?—Any number of well-to-do balers go in without passes to that room.

3695. Do you think that any person with any self-respect would go to the ante-chamber when he is not allowed entrance to the main room?—Indian businessmen who may desire to consult Europeans in the Royal Exchange have every facility for doing so. Indians who are not members of the Royal Exchange have only got to look through one of the many doors to immediately get into touch with any member.

3696. Is it not a fact that for a good many years Indians were not permitted to be members of the Royal Exchange?—May be, we cannot say, but we know several Indians who have been members for long.

3697. Are you aware that in recent years big Indian firms and dealers in jute who desired to become members of the Royal Exchange were told by the latter that they should not apply because they would not be admitted as members?—We have no knowledge about that.

3698. *Sir Purshotamdas Thakurdas*: You representatives of the Bengal Chamber of Commerce do generally endorse the opinions expressed by Messrs. Cook and Ingram who were examined by this Committee yesterday and to-day?—Yes.

3699. Therefore the views of the Bengal Chamber of Commerce and the Exchange Banks' Association on questions dealt with before this Committee are identical?—Practically so.

3700. The Bengal Chamber of Commerce is the most premier British Association in India?—Yes.

3701. You, gentlemen, have heard the evidence of Messrs. Cook and Ingram yesterday and to-day and you have also heard the various points that have been raised and discussed very fully?—Yes.

3702. Now, I wonder whether your Committee would be willing to send us a supplementary memorandum indicating what changes your Chamber and the Exchange Banks' Association are prepared to introduce forthwith in view of the discussions and the elucidation of the various view points which have taken place between the Committee and the representatives of the two bodies yesterday and to-day. We have together discussed various points very frankly and you gentlemen have all tried to help the Committee as much as you can. You, I am sure, have seen the view-points which have been put to you yesterday and to-day being reflected before this Committee by various Indian commercial bodies. I feel sure that you will be inclined, and think it worth your while after going through your evidence tendered before this Committee to place it before your Chamber and the Association respectively and that you would jointly prepare and send to the Committee a further memorandum (confidentially if you want to do so) indicating what you think can be done forthwith in order to remove the disabilities that the Indian mercantile community suffer from at present that have already been placed before you with a view, first and foremost, to allaying the disturbed feelings in the minds of the Indian commercial community, as also to lightening the task of this Committee in arriving at a satisfactory conclusion in regard to these matters?—We are very glad that you have put the case before us so nicely. We will report to our respective bodies the views of the Committee and shall be very glad to forward to you, if the Chamber and the Association so decide any considered decisions that they might arrive at.

The examination of the representatives then concluded.

TWELFTH DAY.

4th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. D. P. KHAITAN.	Mr. V. RAMDAS PANTULU.
Mr. F. V. RUSHFORTH.	Mr. W. LAMOND.
Mr. MANU SUBEDAR.	Mr. R. W. BUCKLEY.
Dr. L. K. HYDER.	Seth Haji ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Mr. D. S. SASTRI, the representative of the **Andhra Bank, Ltd.**, was examined.

3703. *Chairman*: Mr. Sastri, you represent the Andhra Bank Limited?—Yes.

3704. Are you the Secretary of the Bank?—Yes.

3705. Can you tell us when it was started?—In 1923.

3706. How much deposit money have you got?—About 5 lakhs.

3707. Any reserves?—About Rs. 11,000.

3708. You say that the Chithvalasa Jute Mills were purchased by a European firm of Calcutta. Can you tell the Committee what prevented Indian firms from buying these concerns?—Enough notice was not given.

3709. But did not the European firm who took it over suffer from the same disability?—I cannot say.

3710. Did your bank take any interest in the matter?—No.

3711. Where are these mills situated?—Near Vizianagaram.

3712. *Mr. Manu Subedar*: Who were the creditors?—I am not sure.

3713. If there was very short notice about the sale of the mills, they might have been knocked down at a price which would have prejudicially affected the interests of the creditors who would have made great fuss. Was there no such row in this case?—I do not know full details of the affair.

3714. *Mr. Khaitan*: Do you mean to say that a European firm was able to raise the necessary capital within a week while no Indian firm was able to do so?—I do not mean that. The notice given was too short for any concern, European or Indian.

3715. *Chairman*: You say that borrowing from the Marwaris for capital expenditure on industrial undertakings is too costly. Will you kindly tell the Committee whether industrial undertakings have recourse to such borrowings even though they are costly? Would you also explain to the Committee what in your opinion are the reasons for these high rates charged by Marwaris?—People have recourse to these Marwaris when they cannot help doing so, as the rate charged by them is usually high.

3716. By the term 'Marwari', do you mean the indigenous banker or the money-lender?—I mean a money-lender who deals in hundis, and lends money but does not receive deposits.

3717. You say that the only way out of the present difficulty is to have an Industrial ank which should count upon Government help whenever required. Can you expand your suggestion a little more fully and say what kind of Government help you have in mind?—The Government is at present helping the industries through a separate department. If a central institution like the Industrial Bank is started, then such of the funds as Government is able to spare for the benefit of industries might be devoted to the institution.

3718. Do you mean to say that Government should supply the whole capital?—Only as much money as they can spare.

3719. Do you mean to say that Government should make a free grant to the Bank?—No, they should charge an adequate rate of interest.

3720. Is it your intention that Government should in future conduct its operations under the State Aid to Industries Act through the Industrial Banks?—Exactly.

3721. I dare say you have read what the Madras Committee say, namely, "Government's attempt to assist industry through the help of that Act has met with small response and less success"?—That is perhaps an argument in my favour.

3722. Your idea is that assistance should be given by Provincial Governments; should not the bank in that case be a provincial institution?—Not necessarily.

3723. Then I take it your idea is that the Industrial Bank which you propose should be a bank with share capital and the only assistance which according to you the Government should give it is assistance under the State Aid to Industries Act. Now, 'Industry' you know is at present a transferred subject. If Government assistance is the sole form of assistance which you contemplate, then should not your Industrial Bank be a provincial institution?—Not necessarily. It should be an all-India institution with branches in the provinces, and the branches will have local boards to look after them.

3724. You see, Government assistance must be mobile. If for instance the Government of Madras gave the bank a loan, they would like the loan to be utilised to help industries in Madras. The money cannot be transferred to Bombay or to Bengal, and therefore it will operate as a sort of impediment to the mobility of funds?—(No answer).

3725. You say that debentures issued by the Industrial Bank should be classified as Trustee Securities. Would you in addition require the Government to guarantee interest on these debentures? If so, would you have the guarantee limited in any way, such as guaranteeing interest on debentures issued only within the first five years, etc.?—The Central Government should guarantee interest on the debentures, the bank being an all-India institution.

3726. You also refer to strict governmental control. Will you kindly explain how you would arrange for the exercise of such control?—Through Government directors with powers of veto.

3727. You suggest that there should be an all-India Industrial Bank, as an independent bank in each province will not be able to withstand depression in any particular industry, nor be free from local favours and prejudices. Would you please tell the Committee whether there are not more than one industry in every province and why you think that a Provincial Bank will be concerned only with one particular industry and be subject to the depression in that particular industry?—In every province some industries predominate over others, such as cotton in Bombay and jute in Calcutta. Now if there were depression in the main industry of the province, all the provincial institutions that have made advances, will suffer. But if the institution were to be an all-India one, the difficulty would not be so great.

3728. At present there is an all round depression in both cotton and jute; then according to you, the position of the Industrial Bank under such conditions will become perilous?—But an all-India institution will be better able to with-stand the depression.

3729. How? What about the cumulative effect on the various industries with which the Bank has to deal?—My only contention is that if there were an all-India institution, it would be better able to meet any depression in any particular industry in any particular locality.

3730. You say that a provincial bank will not be free from local favours or prejudices. I take it that provincial banks will issue loans on the advice of the advisory boards? Will not those advisory boards be amenable to local favours and prejudices?—To some extent; but then there will be the modifying influence of the all-India institution.

3731. Will not an all-India Industrial Bank working through branches in the provinces be deprived of opportunities for close contact with local industries? To meet that, you have already proposed local advisory boards, though I really do not see how the limitations which you want to impose on the working or on the powers of these local advisory boards will enable you to dispense with the need for close contact.

3732. Can you give the Committee any idea of the share capital that will be required for the all-India Industrial Bank that you propose?—I have not thought over that matter well. But I think about 10 crores will be required. It will depend largely on debentures the bank will be able to raise.

3733. You say that the smaller merchant finds it difficult to obtain finance for foreign trade. Can you give the Committee any concrete instances where such small merchants find it difficult to obtain accommodation?—I have in mind some two or three merchants of Rajahmundry who did approach several banks in Madras but could not get accommodation, because they were new to the industry and not so well known in Madras.

3734. What sort of merchants were they?—They were dealing in cashew nuts.

3735. What was the volume of the business they were doing?—I cannot give off-hand information.

3736. *Mr. Manu Subedar*: What was the turnover per year of their business? One lakh, two lakhs, how much?—I do not know the volume of their business.

3737. *Chairman*: These small merchants were new to the business?—They were.

3738. Were they not well known to the banks from whom they wanted to borrow money?—They were not residing at Madras, but at Rajahmundry.

3739. They were new to Madras?—They were.

3740. Why did not your bank help them with the money?—We had no foreign exchange business.

3741. Could you not get your bills and re-discount them at Madras?—It is difficult for us to make arrangements for rediscounting. We have not been doing this business and we did not want to enter into it at that stage.

3742. Were these merchants in a position to afford proper security to the banks from whom they wanted to obtain money?—They were prepared to deposit 10 per cent. of the amount of the bills they wanted to discount.

3743. Even then they did not get any money?—That is what they represented to us, and finally they had to give the bills to the Central Bank of India for collection.

3744. *Mr. Khaitan*: You mean to the Central Bank of India in its exchange department?—Yes.

3745. Are they not able to get finance even from local indigenous bankers or local joint stock banks for their local requirements?—So far as Rajahmundry is concerned, there is only the Imperial Bank there. There are no indigenous bankers there in the sense accepted by you. So they had necessarily to go to Madras.

3746. But I am talking of their local business. Are not the people considered to be of sufficient integrity and position that they deserve credit from local institutions?—We are now talking of credit for foreign bills.

3747. Your complaint is that they could not get credit for foreign business, from which I understand that they are not people of sufficient means and integrity that a local person would be prepared to help them?—If there was a local bank doing this business, it would have certainly been prepared to help them regarding these bills; but since there was none, they had to go to Madras where they were strangers, and the Exchange banks did not help them.

3748. *Chairman*: But do these merchants find any difficulty in obtaining money from banks or indigenous bankers at Rajahmundry?—As I have already told you, there are no indigenous bankers there.

3749. How do they get money to meet their local requirements at Rajahmundry?—So far as their usual business is concerned, they get the money either from the Imperial Bank, or from the local Marwari or they trade with their own monies. The actual difficulty is they had to sell their bills representing produce exported from the country and they could not do it because there were no banks in Rajahmundry.

3750. *Mr. Lamond*: Do you know if the cashew nuts sent to England were for sale in England or were they actually sent against the order of a foreign merchant?—It was against an order, but no letter of credit was opened.

3751. *Mr. Manu Subedar*: Why was that?—Because perhaps they were new to the business.

3752. It might just be a trial order?—No, it was not the first order.

3753. *Chairman*: In any case the bank which refused them that accommodation was the Central Bank?—They had gone to all the Exchange banks. The Central Bank only took them for collection.

3754. *Mr. Buckley*: The Central Bank would not give them facilities any more than the Exchange banks; the Exchange banks would also have sent the bills for collection?—Because the merchants were strangers to Madras, they could do nothing else but to give their bills for collection.

3755. *Mr. Manu Subedar*: These men had their money locked up until the bills were collected?—Yes.

3756. Would they be able to trade on this basis?—Not for long; they would have to get a letter of credit.

3757. Otherwise, drop out of the export business?—Yes, completely.

3758. Is it your suggestion that a small merchant has no scope for export business of this kind?—That is what I mean.

3759. *Chairman*: You say that Exchange banks advance moneys to the bigger firms for the buying and collecting of produce. Will you kindly tell the Committee whether these advances are given before the produce is ready for despatch to the ports or only on the security of railway receipts after it is despatched to the ports?—It is generally against railway receipts after despatch to the ports, but at the instance of the importer in the foreign country I have known of cases where banks do advance to the exporter here for collection of produce.

3760. Can you give us details of any case?—I have known one or two cases in which credits have been opened for the collection of produce at the instance of the bank in England.

3761. *Mr. Ramdas Pantulu*: Can you mention the names of the parties?—The importer at London in one case guaranteed the payment of the money to the Mercantile Bank and the Mercantile Bank advanced money to Messrs. C. K. Narayana Ayyar and Sons.

3762. *Chairman*: The security is the guarantee of the party in England? —Yes.

3763. *Mr. Ramdas Pantulu*: Was that money given for the collection of produce?—A portion of the money the party gets on his own account. For instance, if he is able to raise money up to ten lakhs on railway receipts relating to goods sent to ports, he also gets Rs. 1 lakh from the bank on goods in the course of collection or in the course of being railed.

3764. *Chairman*: You say that Indian joint stock banks are unable to meet the requirements, however small, of the foreign traders. Will you kindly tell the Committee why the Indian joint stock banks are unable to do so?—It is mostly because of want of funds, but it is also due to their disinclination to deal in foreign exchanges.

3765. But you apparently qualify this statement by what you say in the following paragraph where you say "though in some cases they" *i.e.*, the export bills "are first discounted by an Indian joint stock and subsequently re discounted by an Exchange bank". As a matter of fact, it is for that reason that I put you the question whether in the case of the small trader who was in difficulty you could not have his bills discounted and thereafter have them rediscounted with an Exchange bank?—If there had

been banks doing this sort of business, it would have been possible, but it is not in all localities that you get banks to do it.

3766. But some banks do it according to your statement?—Yes.

3767. *Mr. Manu Subedar*: Therefore it is not due to the unwillingness of the Exchange banks to do it, but to the paucity of banking institutions in districts. If there were a large number of joint stock banks or other banks linked up with the Exchange banks, even the small merchants who are locally well known, but not well known in Madras, would get the accommodation?—Yes.

3768. *Chairman*: You did not make a definite statement that the two concerns which came to grief were even well known locally?—I did say they were known locally and were doing business there.

3769. You refer to the difficulty about the fixing of rates for discount, ready or forward. Can you explain your point a little more fully?—There is always this difficulty when people get import bills in the mofussil. They cannot go to any bank for fixing rates and have to depend upon their correspondents in a place like Madras, with whom they fix their rates.

3770. That arises from the fact that there are no banks at all in these mofussil stations to do exchange business?—Yes.

3771. You refer to the examination of bank's accounts by examiners appointed by the Government and you suggest later on that recognition to member banks can be given or withdrawn by the Reserve Bank on the report of such examiners. Will you tell the Committee whether you will be prepared to entrust this audit and examination to the Reserve Bank itself instead of handing it over to Government?—I would prefer the examination to be in the hands of Government only for the present.

3772. You do not want to hand it over to the Reserve Bank?—Not until the constitution is known and details are worked out.

3773. It can only be handed over to the Reserve Bank when it comes into existence and the Reserve Bank can only come into existence when the constitution and details have been worked out. Therefore will you kindly reconsider your answer?—I would like Government alone to have the power.

3774. *Mr. Khaitan*: After the Reserve Bank is established, would it be Government who would give facilities to the bank or would it be the Reserve Bank from which you would expect financial facilities to be given to other banks?—The Reserve Bank would give financial facilities.

3775. Therefore, would it not be correct that the Reserve Bank which would give financial facilities in the shape of re-discounting bills, etc., to other banks should have the power of appointing examiners to audit banks' accounts, so that it might fully know the position of other banks?—That presupposes that Government examiners would not work with the Reserve Bank.

3776. Is it your intention that Government should appoint examiners and that these examiners should work under the supervision and control of the Reserve Bank?—No, the reports of Government examiners will always be available to the Reserve Bank. If they have anything to say against the Government examiners, it is up to the Reserve Bank to report to Government.

3777. *Chairman*: The object underlying your intention is that if they were controlled directly by Government, you would have more confidence

in them in their audit work than if they were controlled by the Reserve Bank?—Until we know the constitution of the Reserve Bank, I would not like to venture any opinion.

3778. You say that auditors are not experts in banking and very often manipulations in bank accounts lie undetected for a long time. Would you kindly mention any concrete cases which led you to make this statement?—I would rather not; it is too personal.

3779. You suggest that co-operative banks should borrow from other banks and not compete with the commercial banks for deposits. Are you aware that this question of competition between co-operative and joint stock banks has been fully gone into by the Madras Provincial Banking Committee who have reported that the competition appears to them to be fair?—I do not agree with them.

3780. In your written memorandum you say that "when the debentures of land mortgage banks and co-operative societies are given the same recognition and validity as those of *quasi*-governmental bodies like Port Trusts, Municipalities, etc., the unhealthy competition now existing between co-operative banks and commercial banks will disappear". How will it disappear? In the first place, I think I am correct in saying that co-operative societies are not issuing debentures?

Mr. Ramdas Pantulu: The provincial banks do issue for certain purposes long-term debentures.

3781. *Chairman*: In any way when debentures are given the recognition you refer to, how will competition disappear?—I am referring here to short-term money and so far as that is concerned, co-operative banks ought not to be competing with commercial banks.

3782. You have not said that land mortgage banks and co-operative societies should be restricted to debentures and not allowed to take short-term accommodation except through commercial bank; that was my difficulty. So what you really want is that they should not take any short-term deposits except through commercial banks?—Yes, I have said that already.

3783. You refer to money-lenders in your written memorandum and I do not see the connection between the two?—It is only a repetition of what has already been said.

3784. *Mr. Manu Subedar*: By 'validity' you mean they should be made trustee securities?—Yes.

3785. *Mr. Khaitan*: What you really mean is that if debentures are given that status, all their requirements would be met by debentures and they would not have to receive short-term deposits?—I said that co-operative banks should go to the villagers themselves to secure deposits; they now go to the towns where the deposits come from middle classes.

3786. *Chairman*: You suggest that the use of the word 'banker' should be restricted to those who obtain previous permission of the Registrar of joint stock companies and who submit periodical statements as to their position, etc. Would you require these statements to be audited by qualified auditors?—Yes.

3787. Would you allow the term 'banker' to be used by any person who did not receive deposits from the public?—No.

3788. You suggest that foreign banks doing business in India should be required to keep a certain proportion of deposits, received in India, as a reserve fund with the Government or the Reserve Bank. Would you explain to the Committee the object of this suggestion?—We do not know what exactly is the position of Exchange banks and the suggestion is made to provide a sort of safety for the depositors.

3789. You say that Indian money is utilized to help the trade of the countries to which the Exchange banks belong. Do you mean the trade of the foreign countries with India or the trade of the foreign countries with other foreign countries than India?—Both.

3790. You say that restrictions should be placed on the Exchange banks in regard to their receiving deposits and that their deposits should never exceed the total amount invested by them in financing the foreign trade of Indian merchants. Is it your intention that Exchange banks should not finance any portion of India's foreign trade which is handled by non-Indians?—Not with Indian deposits.

3791. You say the minimum amount of paid-up capital of a bank may be fixed at Rs. 1 lakh. Do you think that a uniform limit of Rs. 1 lakh would be suitable to all banks, whether they are small banks started in small centres or large banks in big centres?—In big centres the minimum may be put up in relation to its population, but so far as small centres are concerned, it should not be less than a lakh.

3792. Therefore one lakh would be your absolute minimum, but thereafter you want another minimum on a sliding scale varying with the population of the locality where the bank is to be opened?—Yes.

3793. You propose that during the days of infancy of banking in India, a minimum of fluid resources to be kept by banks should be prescribed. Can you tell the Committee how you would fix the minimum?—There are some agreed conventions about it. So far as cash is concerned, banks generally have 15 per cent.; generally fluid resources are worked out on certain main principles.

3794. Are these main principles or agreed conventions already existing?—They do exist so far as co-operative banks are concerned.

That is a different matter: I thought you did not like co-operative banks. Do you want these standards to be taken with reference to the figures adopted in the case of co-operative banks?—Slight modifications may be necessary in the case of commercial banks, but they should be standardised.

3795. I presume you have not thought about the matter?—I know it for certain what the fluid resources are and if necessary, they could be worked out and exactly fixed; but it is a matter for experts to decide. When once it has been decided upon, it should be made a rule.

Suppose the opinions of the different experts differ?—The other day we tried to find out from an expert body what proportion they would suggest, but they could not suggest any. I thought you as an experienced banker, might be able to give us some assistance in regard to the fixing of a minimum?—A minimum could always be fixed in relation to the locality and the sort of business the bank does. It cannot be always absolute.

3796. I am quite prepared to admit that you can lay down any arbitrary minimum, *e.g.*, 10, 15 or 20 per cent. But as soon as you say that

the minimum will depend, firstly on the locality, and secondly, on the nature and volume of the business done by the bank, naturally it becomes difficult to lay down any minimum. It can be laid down with reference to the capital of a bank, not with reference to the population of the locality?—Not with reference to the population, but to the necessity and demands of the locality. The bank would know its day-to-day business.

3797. *Mr. Manu Subedar*: Will you not leave it to the Directors and Managers of the bank?—Sometimes they do it.

3798. When you refer to fluid resources, you refer to cash on hand with bankers?—Not merely cash with bankers, but also to fluid resources.

3799. Who would determine whether a particular bank was carrying out this regulation or not?—It could maintain a statement in its own books.

3800. Who would see this statement?—The Government examiners could see whether it is maintained.

3801. Would it be for the satisfaction of the Government examiners that they are keeping a minimum?—To see that the Bank is working on safe lines.

3802. Supposing they were working on unsafe lines?—It would be for the Government examiners to point this out to the higher authorities or to the Reserve Bank and the bank concerned would have to offer explanations.

3803. If a bank was not keeping within these regulated provisions, would you see that the facilities given to it by the Reserve Bank, or by the larger banks if it was a small bank, are cut off?—Yes, in that case their facilities must be cut off.

3804. Your intention is to safeguard the depositors of the bank?—It is to safeguard the position of the bank itself.

3805. How would you carry out that intention in practice?—I have been saying that a particular standard has to be maintained.

3806. And Government examiners have to find out if that standard is maintained?—Yes.

3807. *Chairman*: You say that savings bank deposits should be specially protected by investing 50 per cent. of such deposits in long-term debentures of industrial and land mortgage banks and creating a trust in favour of the depositors. Have you considered how far this will affect the attitude of banks in receiving such deposits?—The banks will begin to appreciate this sort of arrangement, because if such restrictions were imposed, the deposits are bound to improve.

3808. If such regulations were made, would not banks have to assume responsibility for the solvency of these debentures?—Yes, they can sell the debentures.

3809. But that does not follow that it would always be possible to sell these debentures in the market and to get a proper value for them?—I do not quite follow.

3810. If you insist that a bank should maintain a particular class of securities, naturally it may say 'I have no further liability in regard to these deposits'.—The bank cannot deny the liability. Only it might offer some other securities instead of debentures. The chief point is only the creation of a trust. If the Bank desires, it may select whatever securities it likes.

3811. Then what is the point in introducing these restrictions?—It is a safety for the depositors.

3812. Would not these restrictions rather weaken the safety instead of enhancing it?—The 50 per cent. is not absolute. As a matter of fact, banks generally keep a lot of their savings bank deposits in Government securities or in other interest-yielding paper. When they do so, they will not find it a hardship to transfer the custody of such securities to an independent body, so that the assets may not be available to the general body of creditors in case of liquidation, the object eventually being to earmark in this way 50 per cent. of the deposits.

3813. *Chairman*: How do you intend to create a trust?—I mean to say that the property should be kept in a trust.

3814. What sort of trust you mean?—Any trust can be created by a bank. One person should be appointed from the directors and one from outside. They will be called trustees and they will hold in their name 50 per cent.

3815. What is the harm if the bank holds it itself?—No, because there will be no special protection to the savings bank deposits.

3816. Is this protection really required?—Many people do not go to the bank because of the fear they have for the safety of the bank.

3817. You are probably talking of banks of a certain type. Do not people flock to properly established banks?—That is not so in all cases. In the city it may be so but in the mofussil it is not so.

3818. Would it not be better to stop these small banks from starting savings bank department until their stability is fully assured?—That is putting off the deposits for some time.

3819. *Mr. Manu Subedar*: They have the facilities of savings bank in the post office?—They will go to the post office in the same way as they go there for registration and telegrams.

3820. Do you want them to be familiar with the banks?—Yes and I want to give them certain protection.

3821. *Chairman*: What are the co-operative banks doing in regard to their savings bank deposits?—I think some banks have that department and some have not. I do not know much about it.

3822. *Mr. Manu Subedar*: With regard to the debentures of industrial and land mortgage banks, do you think there will be a sufficient market for them? Do you think that the issue of these debentures will have such a popularity that they will have sufficient market and they would stand at par?—If they are made trustee security, then I expect so.

3823. Do you suggest Government guarantee also for the first ten years? Let us take an instance that the debentures are issued after ten years without Government guarantee. In that case I suppose they will not be included in the trustee list. So, do you think that they will be sold at par?—I expect so.

3824. *Chairman*: Your object being to create confidence, will it not be achieved by proper regulation of banks and by a sound balance-sheet?—No.

3825. *Mr. Khaitan*: I think your intention is that by creating a trust you want to popularise the banks with the public and make their deposits

quite secure and at the same time create a better market for the long-term debentures of industrial and land mortgage banks. Am I correct in my understanding?—I am not so much for popularising debentures. My reason is to safeguard the interests of the savings bank depositors.

3826. For that purpose you intend that savings bank deposits should not go in a pool with other deposits operated by the banks?—Yes.

3827. *Chairman*: You suggest that a shareholder's right to file a complaint against a bank should be allowed to be exercised only if a judge, after taking evidence in chambers, is satisfied that a *prima facie* case has been made out. Have you considered whether the Judge's opinion would not be misunderstood by the ignorant public as if the case against the Bank had been proved and whether this would not defeat the object you have in mind?—There is certainly a possibility of that sort of impression being created among the public. But it is not necessary to appear in a court unless a *prima facie* case has been made out. Even if a case has been made out, I think a statement from the bank along with a certificate from the Government examiner or assurance from the Reserve Bank might be able to remove misunderstanding.

3828. Has your bank been ever faced with the difficulty like this?—No.

3829. You say that there is want of sufficient scope for employment of students who have undergone courses of banking and commerce in the Andhra University. The other day the Principal of an important college of commerce in Bombay told us that not one of his students was unemployed. Can you tell me what in your opinion are the reasons for this unemployment in your province?—Because there are not many banks there.

3830. May I refer you to your memorandum in which you say "When there is the necessary initiative to establish a bank, trained men are not found or, even if found, etc." You say also that trained men are there but there is no scope for their employment, as there are few banks. You also state that one of the reasons why there are not many banks is that there are no trained men to work these banks. So, both these statements are quite contradictory. Is it not?—There may be trained men, but at times it happens that certain banks do not want outsiders to come into their institutions as they provide some of their own men with jobs and exclude trained hands.

3831. What is the solution?—More supply and more banks.

3832. You say that the banks are not started because there is a lack of men. You further point out that even if the men are there, the promoters of the banks want to give employment to their relatives in preference to those other trained men. So, I want to know what solution can be reached?—I think one should insist on minimum qualifications in the case of higher appointments.

3833. You say that these banks should give their higher posts to the trained men holding institute certificates. As it is, how can that be enforced? Is it that the bank can be stopped from functioning as a bank if it happens that those holding higher posts do not possess any certificates?—I would not say that they should be forced, but pressure should be brought to bear upon them by Government examiners or by public opinion.

3834. Is it not the case that it is public opinion which is really required?—Perhaps at a later stage.

3835. You say a convention should be established whereby a bank should take up every year a certain number of apprentices and train them up without any obligations to entertain them in their service, care being taken that the probationers do not subsequently join or start rival institutions in the same district for some years. If the banks training the candidates do not undertake to employ them, is it reasonable to insist that they shall not be taken by other institutions or shall not start an institution themselves?—It is not so much for the banks but it is for the sake of candidates. So far as I know banks will not be willing to train up men unless they can provide them in their own institutions. But if a provision as recommended by me is made, I think they will be willing to do so.

3836. You say that banks should somehow or other establish a convention under which the existing banks will have to take a certain number of men and train them. You can take up people with an eye to vacancies in your bank. If that is so, your intake must be very restricted. It depends on the vacancies in your bank. On the other hand you may take over these people, simply train them up and leave them to secure an employment. But if you impose the conditions I have mentioned to you, what are the chances in the first place of their securing employment, in the second place what are the chances of another bank being opened at the same place where your bank is, because it will not get trained men?—I am putting this restriction so far as that district is concerned.

3837. One district may have a very large area?—People from other districts can give help to those who are anxious to open a bank.

3838. It means that they must leave their home and go away somewhere else and try to earn their livelihood?—Yes, that is more enterprising, I think.

3839. *Mr. Ramdas Pantulu*: Do you mean to say that if a man is trained in a certain bank and if he goes to another bank later on, he succeeds in taking away the depositors of the bank in which he was trained?—Yes. Banks are therefore, unwilling to undertake to train men, because, they are afraid that the whole secrets of their banks will be divulged, if the man trained in their bank goes to another bank in the same locality or in the same district.

3840. *Mr. Buckley*: Can you guard against this without interfering with the liberty of Indian subjects?—No.

3841. *Mr. Ramdas Pantulu*: Have you got any objection if the man trained in one bank goes to another bank in the same locality after two or three years?—I have put down the period as five years.

3842. Do you say that this condition should be laid down in the Articles of apprenticeship?—Yes.

3843. *Chairman*: Do you seriously mean that those young apprentices who will serve in a bank for, say, two or three years, will manage to get so much insight into the secrets of the bank that when they go to another bank they will take away the business of the first bank?—Certainly, they can. They can take away the fixed deposits, because they at times come into personal contact with depositors.

3844. How can the apprentices have personal contact with the depositors?—They sit at the counter and they get access to every book and every customer of the bank.

3845. *Mr. Manu Subedar*: Do you think that any boy will take the risk of going to a bank for training under your conditions?—There is no risk, because that boy can go for employment in another district.

3846. Suppose a man gets a training in the Imperial Bank or the Central Bank who have so many branches at various places, do you propose to put this restriction that he should not go to either of these banks in other districts?—No.

Mr. Khaitan: What is the guarantee that the existing members of the bank will not leave the service and join another bank?—There we cannot help it. When we take up a man for service in the bank, we think that in all probability he will not leave us. But in the case of the apprentice we know that after being trained he is sure to leave us. That is a great difference between these two cases.

3847. *Chairman*: Will you tell the Committee whether there are any facts in your experience which have led you to suggest these restrictions on the training of candidates?—I have known such instances and I can say that there is always this fear which I have mentioned.

3848. Did anybody approach you for taking him up in your bank as an apprentice?—Yes.

3849. Have you taken anybody who has gone away to another bank taking away with him several of your customers?—Yes, there is one.

3850. Is it so? I thought your bank is the only bank in the locality?—There is another bank in the locality which is opposite our doors. We had taken up a boy as an apprentice and after working for ten months, he went away to another bank taking with him some of our customers.

3851. *Seth Haji Abdoola Haroon*: Do you not think that banks in Bombay will afford these facilities?—I do not think so unless they are sure that there will be some scope for getting that man employed in their bank.

3852. We want to increase banking education to the young men, then what is the solution?—As far as I know banks try to avoid giving such facilities.

3853. We were told by the Principal of an institution that he found no difficulties in arranging for the practical training to the best of his knowledge. He says that joint-stock banks in Bombay at any rate do take young men for training, of course irrespective of their service requirements. What do you say to this?—If I get the names of the banks that have been kind enough to take students, I shall be very glad. So far as I am aware only one institution gives these facilities.

3854. If one institution is doing that without being afraid of these eventualities, why should other banks be afraid? You say that is your bitter experience?—No, I will not say that it is my bitter experience. I will simply say it is my experience.

3855. *Mr. Ramdas Pantulu*: I understand that the Provincial Co-operative Bank also gives such facilities?—It is an Apex bank with no rivals in the province but I am talking about the commercial banks who have rivals in almost every place.

3856. *Chairman*: You refer to the Indian joint stock banks being hampered by the unfair competition of Exchange banks. Would you tell the Committee the directions in which this competition exists and why you consider it unfair?—The competition is unfair in several cases.

3857. What are the directions in which there is an unfair competition?—Firstly, it is in the case of deposits. An exporter goes to the Exchange bank in consideration of the facilities he gets not only in connection with exchange business but also in inland trade. I have already stated in my memorandum that as the Indian joint stock banks are unable to meet the requirements, however small, of foreign traders, the latter are driven to the Exchange banks so that the benefits of the other business of those firms such as inland trade, deposits, etc., are also lost. This is also the case with insurance companies. The Exchange banks favour them by influencing the exporters in insuring with certain companies only and naturally the insurance companies go to the Exchange banks.

3858. *Mr. Manu Subedar*: How can anyone deposit in the Exchange banks, because they pay a lower rate than the joint stock banks?—The question of rate does not matter much to the merchants. They get other facilities.

3859. *Chairman*: Is it your personal experience? I am asking this question because an Indian manager of an Indian joint stock bank told us the other day that there was no unfair competition between the Exchange banks and the Indian joint stock banks in regard to deposits?—Yes.

3860. *Mr. Ramdas Pantulu*: Where were you before?—I was in Madras.

3861. *Chairman*: In whose employ?—I was with the Madras Branch of the Central Bank.

Well, as you were in the Central Bank, let me tell you now that the Managing Director of the Central Bank himself told us the other day that there was no unfair competition on the part of the Exchange banks?—Perhaps, this particular matter to which I am referring might not have been brought to his notice. I can tell you what happened in Madras. A hide and skin merchant had placed on deposit Rs. 1 lakh with the Central Bank in Madras. He was given various facilities and he was also promised facilities for foreign exchange business. But subsequently he was not given those facilities because we received instructions to that effect from the head office. He, therefore, placed his deposits with the Chartered Bank.

3862. That does not establish your proposition. In this case the merchant was promised certain facilities by the Central Bank which they decided later not to give him. He, therefore, went to the other bank. The Central Bank is doing exchange business, and if that bank had given him the facilities for foreign exchange, he would not have gone to the other bank. But for some reasons best known to the Bank, the head office of the Bank did not give these facilities to him. If the Central Bank was not doing foreign exchange business, then your proposition would have some meaning. I believe the Central Bank is also doing exchange business in Madras. Is it not?—Yes, but there is a certain limit.

3863. I am trying to get from you your personal experience. You say that you were in the Central Bank in Madras and you make a statement with your experience of that bank. We have before us a statement of the Managing Director of the Central Bank which clashes with your statement. And naturally I am rather interested to get the information which you are able to give. My point is this. In this particular case you quoted you do not establish your proposition. What you say is this. Firstly, the Central Bank at Madras does exchange business; secondly, the branch of the Central Bank at Madras tried to secure this client by promising to do his exchange business; thirdly, the head office of the Central Bank refused to give that concession to him; and fourthly, the man left the Central Bank and went somewhere else. That does not establish your proposition. However, I do not wish to pursue this matter any further.

3864. *Mr. Khaitan*: I think the point is this. The fact remains that the deposit of Rs. 1 lakh went to the Exchange bank. These Exchange banks can do their business on deposits and therefore they accept deposits. So, I say it is a case of competition. If the Exchange banks had no right to receive deposits, that deposit would have gone to other joint stock banks.

3865. *Chairman*: But the point is this. If a man wants to remit money to London or to a foreign country in connection with the financing of foreign trade, he must go to the bank which is doing exchange business.

3866. *Mr. Khaitan*: Not necessarily, there should be a margin kept for the letter of credit. A certain margin should be deposited with the Exchange bank and it is not necessary that merchants should have deposits with the Exchange banks.

3867. *Mr. Buckley*: Am I right in assuming that the merchant deposited his money with the Exchange Bank of his own free will and not because he was forced to do so?—I cannot say that it was due to compulsion that he deposited his money, but in order to gain the good-will of the bank so that they might help him well in his foreign exchange business he might have done so.

3868. Is there anything wrong in a bank asking its customers to deposit some money in return for the facilities that the former are prepared to grant the latter, to encourage mutual trust and good-will as you say?—There is no harm in opening a current account, but here in this case it was a fixed deposit account that the merchant opened with the Exchange Bank.

3869. *Mr. Manu Subedar*: Then is it your point that the merchant loses some interest because he deposited his money with the Exchange bank instead of the Central Bank of India, in which case he stood to gain a little more interest?—Yes, that is also another consideration.

3870. Then your point is that because the deposit goes away from the hands of the Indian joint stock bank into the Exchange Bank, it works prejudicially against the former?—That is why I say that there is unfair competition.

3871. *Mr. Lamond*: Would not a merchant be justified in having all his accounts with one bank alone which can offer him all the facilities that he wants?—From the merchants' point of view it may be all right,

but my point is that but for the foreign Exchange Bank intervening the Indian joint stock bank would have got the deposit.

3872. *Chairman*: You say Industrial Banks should help in the development of industries which have natural advantages in India and could ultimately be worked successfully. Would you tell the Committee how the Industrial Bank would ascertain that an industrial concern asking for assistance belongs to the category mentioned by you?—That could be done by Industrial experts. The bank might have its own experts or they might requisition the services of Government experts.

3873. You say that there has never been any lack of co-operation between the existing Indian banks. Can you tell the Committee whether this co-operation has taken any practical shape, like for instance the Exchange Banks' Association?—They have not formed themselves into any association.

3874. Then what is your reason for saying that there has been co-operation?—I only mean it in the sense that they are not quarrelling with each other. (Laughter.)

3875. You say that admission to the Clearing House has always been a jealously guarded monopoly of the members where the Exchange Banks are generally in the majority. Would you tell the Committee from facts within your personal knowledge or experience whether any Indian bank has found it difficult to obtain admission?—The Bank of Hindusthan, which has been started about a year ago, has found it difficult to get in as a member and is still, I understand, out of it. My information is that on the application of the Bank, all the Exchange Banks voted against entry while all the Indian banks who are members of the Clearing House were for the inclusion. I understand that there was similar difficulty in the case of the Punjab National Bank.

3876. Has your bank tried to join the Clearing House?—No, we are in Masulipatam and we are not interested in becoming a member.

3877. *Mr. Buckley*: The whole object of a Clearing House is to easily facilitate the clearing of large numbers of cheques. Is that not so?—Yes.

3878. Do you not think as the Hindusthan Bank is only one year old, it is possible that there might not be enough cheques for it to pass through the Clearing House and that might be the principal reason why it was not admitted?—If they had not enough cheques, the bank would not have applied for inclusion.

3879. *Mr. Lamond*: Do you know how many Clearing banks there are in London?—I don't know.

3880. Would it surprise you if I tell you that there are only about 9 clearing banks attached to the Clearing House in London?—Possibly it might be so.

3881. *Mr. Khaitan*: Do you know how many branches these clearing banks have?—

3882. *Mr. Buckley*: Oh, any number. Something like 8,000 or so.

3883. *Mr. Khaitan*: Do you not think that if a bank is not a member of the Clearing House, it loses its prestige in the eyes of the public and consequently its current account business will not develop?—That is so.

3884. *Chairman*: May I take it that it is your view that admission to the Clearing House should not be jealously guarded?—At any rate it should not be so restrictive as at present. Moreover, applications are turned down because of racial considerations.

3885. I am not concerned with racial discrimination at all. I only want to know your views in the matter?—It should not be a monopoly, but it should be guarded.

3886. Therefore you will admit that in the case of a bank like the Hindusthan Bank which has been established for only a year there might be other reasons than racial for its being refused admission to the Clearing House?—But in this particular case I think it was due more to the monopolistic tendency. It is a very promising bank and the Managing Director, Mr. Vidya Sagar Pandya, is a very popular and influential gentleman.

3887. Is it your view that admission to the Clearing House should depend on the person in charge of the affairs of the bank?—Personality and the position of the Managing Director as also the position and status of the bank must be taken into consideration.

3888. They are both cumulative?—Yes.

3889. Therefore won't you admit that even if a person who runs the bank is a first class experienced banker, there may still be some justification for refusing the bank admission to the Clearing House during the first or second year of its establishment on other than racial considerations?—There may be some justification. I don't deny that.

3890. *Mr. Manu Subedar*: Do you imply that so long as there are not sufficient number of Indian banks and the foreign banks are in a large number at most of the centres, the admission of an Indian bank should not be jeopardised because it is Indian?—That is exactly my point.

3891. How do you propose to eliminate that fear? Would you give the power to the Reserve Bank as and when established to deal with these matters?—The matter must be left entirely to the members of the Clearing House.

3892. *Chairman*: You probably are not aware that it is the intention to invest these powers with the Reserve Bank when one is established. Very well, we will leave it at that.

3893. You say that salaries paid in Indian joint stock institutions are not high enough to attract the best men. In a later paragraph, you mention that at present, people with experience and knowledge of banking affairs are very few. In view of this would you explain your reference to inadequacy of salaries?—I have in mind two classes of people. Under the first class I include all those who have had sound banking education and have had enough of practical training and experience in the working of banks who are very few in number, and under the second class I would include those who have had only theoretical experience and just out of college. What I refer to is that the first class of men are not attracted by the salaries offered at present.

3894. You say there is no scope for usance bills in an agricultural country like India where the produce is sold outright for cash and is subsequently exported. Is it not a fact that it is only the surplus produce that is exported and that there is a large internal trade in Indian produce?

Is there not scope for the use of usance bills in this internal trade and also in the distribution of the imported goods?—In the matter of internal trade in this country between the seller and the wholesale buyer it does not generally take more than a week or a fortnight for the goods to reach the destination, and as soon as the goods arrive at their destination, they are sold out to smaller dealers and through them to the consumers, so that the interval between these transactions is very little and no usance bill is really required. But in the case of foreign transactions a delay of about two months is common and so the usance bill will be of use in this case.

3895. *Mr. Manu Subedar*: You suggest that in order to build up a reserve, the banks must be forced to set apart a certain percentage of its net profits to the Reserve before dividends are declared. Supposing in one particular case the dividend declared is only 2 per cent., would you still make a provision that something should be set apart to the Reserve? When the amount available is more than 6 per cent., I can very well understand your argument.—If no dividend is declared, that will also reflect upon the bank as the public will not have much faith in that concern. My whole point is that at least some little portion of the net profit should be set apart for the Reserve.

3896. You say that the Imperial Bank, except in a few cases, has never sympathetically looked upon struggling Indian banks but have competed with them in an unsympathetic manner. Do you mean to imply that the competition is caused mainly because of its superior position and the fact that it is able to command a large amount of Government money, or do you imply that the Imperial Bank goes out of its legitimate path and hampers your progress in an unscrupulous manner?—They don't help other Indian banks. If they stop with doing their legitimate duties, then nobody has any complaint, but they are really going out of their way in several respects.

3897. Would you explain how they are going out of their way?—Yes, they threaten the customers of the Indian joint stock banks by asking the former not to co-operate with the latter on pain of losing facilities from the Imperial Bank.

3898. Do you mean to say that they actually go out of the way and induce merchants and others not to co-operate with the Indian joint stock banks?—Yes. I can speak to you about a concrete case that has happened. One of the members of the local Advisory Board of our Cocanada Branch was advised to cease all connections with a branch of our bank and he was further threatened that if he promised to do so, they would wait for two months whether he actually acted up to his promise or not and then only help him as usual in his banking requirements, etc.

3899. *Chairman*: Have you got branches also?—Yes, we have a branch at Cocanada and another at Hyderabad.

3900. *Mr. Rushforth*: May I suggest that this subject should be discussed confidentially?

Chairman: Not until the witness desires us to do so.

3901. *Witness*: I have no objection to facts revealed by me to be discussed in public, but I only request that the name of the party may not be revealed, lest it should work prejudicially against him.

(At this stage the witness handed over a letter written in Telugu to the Chairman which dealt with the incident referred to by the witness. Mr. Ramdas Pantulu promised to get the letter translated for the benefit of the Committee.)

3902. *Chairman*: Evidently this incident has happened at Cocanada, for I find the letter is issued from Cocanada?—Yes.

3903. *Mr. Manu Subedar*: You say that the Imperial Bank is not re-discounting your bills. Have you ever approached the Imperial Bank to grant you re-discounting facilities?—We requested them to grant us over-draft but instead of granting that they said they will grant us only re-discounting facilities, and so we declined to accept the offer.

3904. Then your statement in the written memorandum that the Imperial Bank does not re-discount bills of other banks is not correct?—For our part, the Imperial Bank said that they will give us facilities half-way in respect of both over-draft and re-discounting. There was a special reason why they went to at least that length. This was because our Managing Director in 1927 helped the Imperial Bank in realising a large amount of its dues from a certain party. Because the Imperial Bank would not give us both the facilities in full, we declined to accept them.

3905. *Mr. Manu Subedar*: You say that the Imperial Bank should be relegated to the position of Exchange banks. Do you know that other Exchange banks are companies registered in foreign countries. If the relations of Government with the Imperial Bank cease, after the establishment of the Reserve Bank, the Imperial Bank will have to work as an Indian bank registered under the Indian Companies Act, and therefore it cannot have the same position as the other Exchange Banks?—So far as India is concerned, there are no restrictions.

3906. But you have said that after the Reserve Bank is established, the Imperial Bank should have no facilities from Government?—It can be an Exchange bank for the country; and the Government will give it the benefit of its foreign exchange business.

3907. How can it be relegated to the position of Exchange Banks?—I have said, "the position of *an* Exchange bank."

3908. Do you imply that the Imperial Bank, if freed from its present restrictions under the existing Act, will of its own accord go in for exchange business, or do you imply that the Government should give it facilities to do exchange business?—I said that Government should give it facilities to do exchange business for the country. It should still be a Government bank and yet it should work in a different field.

3909. Would it be a desirable thing for this country to place the Imperial Bank in such a position? Do you think it would be a desirable thing for Government to encourage this?—It is desirable, since the Imperial Bank will in that capacity be more serviceable to the country.

3910. You suggest that the money-lender should be forced to change his methods and should be required to take out a license before he could start regular money-lending business?—I have already stated earlier in my memorandum that the money-lender's money must be made unlendable except at the rates which the banks charge for their investments. The money that is lent by the bank will be at a particular rate, and if the money-lender is not able to get a higher rate for his lendings, he will not be able to earn any profit.

3911. You want to control the moneylender's business. Do you not think that ultimately the agriculturist will suffer from want of easy and sufficient funds?—I would suggest that the co-operative banks should undertake to lend money; the land mortgage banks can also help the ryot.

3912. Do you want co-operative banks and land mortgage banks to step in?—Yes, to help the ryot.

3913. Do you not advocate that new joint stock banks like your own should come into existence?—I am in favour of more joint stock banks.

3914. You refer so often to unhealthy competition among various banks? I put it to you whether you are not competing with other banks in your place?—I am, I cannot keep out of it when other banks come into the competition.

3915. *Mr. Lamond*: On page 1 of your memorandum, paragraph 4, you say, "there is no chance of any industry developing under the present circumstances unless long term credit is available." You have also quoted four cases of mills which you say went into liquidation as the Imperial Bank did not come to their help in time. Have you any knowledge of the circumstances in which credit was withdrawn from them? Do you not think that if the Imperial Bank did not offer any assistance, that might have been because the position of the mills did not warrant it? And if these mills were bad cases for the Imperial Bank, do you not think that they would be bad cases for the Industrial Bank as well?—My idea of the situation is that if there had been an Industrial Bank in existence, these mills would not have come to grief, because the Industrial Bank by offering long term credit to these companies would have saved them from ruin.

3916. Do you not think that their failure was due probably to bad management?—I do not agree that it was due to that cause alone. My information is that they asked for long-term advances which were refused; hence they had to go into liquidation.

3917. Would another commercial bank have advanced any money to these companies under the circumstances in which the companies were placed?—I do not know about other commercial banks, but I am sure that the Industrial Bank, if one had been in existence at the time, would certainly have helped these mills.

3918. Do you not believe that these mills were not working with sufficient capital?—That may have been, but I maintain that an Industrial Bank would have been expected to give the necessary assistance even under such circumstances.

3919. Your statement from one end to the other is so full of contradictions that it is really difficult to argue the matter any further. For instance on page 7 of your memorandum you say, "the Imperial Bank except in a few instances has never sympathetically looked upon the struggling Indian banks but has at every opportunity entered into competition with them at times even in an unscrupulous manner". Then on page 10 of your statement you say, "It (Imperial Bank) also lends to other banks against Government securities and to industrial concerns against raw produce, etc. Indigenous bankers and multani and marwari money-lenders are also financed to large extent." Then again, on page 11, you say, "In times of difficulty, there is no instance of the Imperial Bank having assisted an Indian Bank except it be against deposit of Government securities." I mean the whole thing is a string of contradictions?—I do not find any contradiction in any of these.

3920. There are so many contradictions that it is not worth while going into details?—I do not find any contradiction in the statements that you have read out to me. I have merely mentioned facts.

3921. On top of page 11 you have said, "Instances are not wanting where promoters of a new bank are dissuaded from the work, where borrowers of a new branch of a bank are threatened with the cancellation of all existing facilities and where even the usual facilities allowed to its ordinary clients or even the common courtesy of a co-banker are denied by the Imperial Bank to the indigenous bank, though the existence of a small local bank cannot be considered to be even a flea bite to this gigantic institution. In times of difficulty, there is no instance of the Imperial Bank having assisted an Indian bank except it be against deposit of Government securities. The Imperial Bank has thus failed to occupy the position of a bankers' bank." Supposing I gave you an instance where the Imperial Bank did help an Indian bank?—So far as I am aware, there is no instance of the Imperial Bank having ever helped an Indian bank. Further, I am prepared to substantiate every statement that I have made in my memorandum, and I may add that there is a lot of public feeling against the general attitude of the Imperial Bank.

3922. Then it is only feeling and not a statement of facts?

3923. *Chairman*: Mr. Lamond's point is this: You have made a statement that in times of difficulty there is no instance of the Imperial Bank having assisted an Indian bank except against a deposit of Government securities. Now, can you give us any instance where the Imperial Bank refused to do what you say they should have done?

3924. *Mr. Lamond*: Sir, my point is that he has made a statement which is entirely without foundation.

Witness: It is rather difficult to substantiate such charges.

3925. Then, why make such statements?

3926. *Chairman*: Unfortunately you have made a definite statement which, so far as we know, is not a correct statement because we know the instance of one Indian bank where assistance was given.

3927. *Mr. Manu Subedar*: Do you mean to say that this one case is exceptional and that the general rule is that the Imperial Bank refuses to assist Indian banks in times of need?—There are instances where they actually refused to help. If you want, I can give concrete instances.

3928. Can you send us a list of those instances?—Yes, if I run up to Madras for a few days.

3929. *Mr. Ramdas Pantulu*: In answer to the Chairman's question regarding the competition of co-operative banks, you said you did not agree with the findings of the Madras Provincial Banking Committee. Do you know at what rate co-operative banks lend money to the agriculturist?—At 8 to 9 per cent.

3930. What is the rate at which your Andhra Bank lends money to its customers?—At 2 per cent. over the Imperial Bank rate.

3931. So that if the Imperial Bank rate is 7 per cent., then you will lend to the co-operative banks at 9 per cent. and also expect the co-operative banks to lend to the agriculturists at 9 per cent., *i.e.*, the rate at which they borrow?—The rate of the Imperial Bank is about 6 to 7 per

cent. only during the busy season, while the needs of the central co-operative banks for short-term borrowings will be only from May to June.

3932. You are wrong. Our operations go right up to October and then again begin from January and go up to March or April. Can you lend to any central co-operative bank at any time in the year at 6 per cent. or at 5½ per cent.?—It cannot be so cheap as that.

3933. Do you think that in places where there are co-operative banks, you can lend money at the Imperial Bank rate?—We are lending at one per cent. over the Imperial Bank rate.

3934. *Mr. Ramdas Pantulu*: According to the Madras Provincial Committee the capital required for the current requirements of the agriculturists is about 70 crores of rupees; according to the Madras Central Urban Bank, it is 40 crores. Do you think that these 40 or 70 crores could be raised by the agriculturists themselves in the village for their needs and that no external aid should be given to them? Is that your idea of co-operation?—The needs have been met all these years by private moneylending.

3935. And it has been found to be ruinous by every authority concerned?—If the primary societies are able to get all their money through the medium of the moneylenders, the problem is solved.

3936. Do you think there are enough people in villages who have spare money to lend this 40 crores every year?—If that is not the case, there is no use at all trying to improve these primary societies.

3937. *Chairman*: Are you aware that the moneylenders do not find the whole of the capital required for local financing, but they also depend on urban moneylenders for part of their resources?—If that is not feasible, the only other course is that they should not offer higher rates than those prevailing.

3938. *Mr. Ramdas Pantulu*: What do you offer for your deposits?—6 per cent. for twelve months.

3939. Do you know what the co-operative bank at Masulipatam offers?—5½ per cent.

3940. If I may correct you, co-operative banks are offering 5 per cent. for long-term deposits and 4 and 4½ per cent. for short-term deposits. Are you competing with them or is the co-operative bank competing with you?—We are competing with them.

3941. Why do you think that the co-operative bank which wants to get money at 5 per cent. and finance the agriculturist at 8 per cent. is acting wrongly and you are acting rightly when you offer 6?—Our rates will also come down automatically when the central bank borrows at 4 or 4½.

3942. Will you also reduce your rates to the level of larger joint stock banks?—It is always our endeavour to reduce our rates to the level of the joint stock banks in other cities, but when there is a competitor like the co-operative bank offering a higher rate, we are helpless.

3943. It is just the opposite of what you say. The co-operative bank at Masulipatam is able to get money at 4½ to 5 and you have to pay 6 per cent.?—We find it impossible to reduce our rates further because of the higher rates offered by the central bank. If they reduce to 4 or 4½, we shall also reduce to 4½ and 5 per cent.

3944. But you admit that no joint stock bank can advance to the agriculturist?—Yes.

3945. Then you want to leave it either to the money-lender or to the village societies themselves?—They ought to develop.

3946. The idea is that the moneylenders should continue to finance them or the villages themselves must find the capital?—Perhaps as a lesser evil, let the co-operative banks go on for some time, but what we should aim at is that the primary societies should try to raise all the money necessary and not the central bank.

3947. If every village found its own capital, then you think your operations would not be hit? Is that your idea?—Yes.

3948. Then there is the question of financing the agriculturist against his produce. Now the joint stock banks do it?—Yes.

3949. What rates do you charge?—We charge 1½ per cent. over the Imperial Bank rate, with a minimum of 7 per cent.

3950. Do you give small loans?—Yes, 500 and above. We do not give loans below Rs. 500.

3951. But if smaller agriculturists whose produce is on land want, say Rs. 100 or Rs. 200 to tide over a difficulty or move the produce to other markets, whom do you think they should go to?—They have yet to begin that sort of thing.

3952. Do you know that co-operative banks have been advancing money in this respect?—That is only in two districts and within the last one or two years.

3953. They are developing their business?—And I do not find fault with them.

3954. But we want money for that purpose and where are we going to get that money from? If the central banks are to advance money against produce, they cannot obviously go to you, because they get money at 6 per cent.?—But I am considering the possibility of our rates being reduced still further. At present it is not possible.

3955. Therefore you think that at present co-operative societies are doing good work?—They are doing good work.

3956. They are financing agriculturists much better than you could do. —Yes.

3957. You think they stand in the way of your developing?—That is my grievance.

3958. Therefore you want the co-operative central banks to be removed from your way?—If they are removed from competing for deposits, it will make me happy.

3959. *Chairman*: It may make you happy, but will it be in the interests of the country? I think you answered that it did not concern you. You are more concerned with your own business than with other questions.

3960. *Mr. Ramdas Pantulu*: Do you know that the Imperial Bank is giving certain facilities to the co-operative banks?—Yes.

3961. And very useful facilities too?—That is so.

3962. Has any joint stock bank in India ever thought of financing the agriculturists who are the mainstay of the country?—Commercial banks have not been able to do it.

3963. Why should the co-operative banks be tender to commercial banks? Why should we stand out of the way of commercial banks by not attracting money at a rate at which we can get it lower than your own lending rate?—My contention is that by your quoting high rates, the rates for fixed deposits are unnecessarily being put up. It is in the interests of the country itself that the central banks ought not to borrow or even if they borrow, it must be at rates prevailing at other centres and not at higher rates. The interests of the country are not ignored.

3964. Supposing the central banks borrow at 4 per cent., what do you visualise your rate to be?—4½ at the most.

3965. What will you do for the co-operative movement with the money you get?—We would certainly advance them money during the dull season.

3966. At other seasons?—We cannot advance.

3967. Therefore by withdrawing our competition from the field and allowing you to get money at a lower rate, what is it that agriculturists are going to get? You have already agreed that whatever be the rate at which you get money, you cannot finance agriculturists?—Yes.

3968. You know the agriculturists form 80 per cent. of the population of the country and produce all that is necessary for the mills and create a favorable trade balance and are the mainstay of the country?—I quite admit that the agriculturist has to be financed, but their financing does not end with the co-operative banks alone; you cannot ignore the commercial banks.

3969. Our idea is to displace the moneylender not the commercial banks?—It may never be possible.

3970. It is a matter of opinion. As a matter of fact, to-day, we have been able to find money to the extent of 10 crores in Madras and the Punjab Committee says that within ten or fifteen years, they would be able to reach a 75 per cent. limit. After some years it would be possible to displace all the moneylenders?—I am referring to the commercial man who purchases stuff and sends it out for export or for sale. You want merely to benefit the agriculturist; I am referring to the middlemen and the merchants who have to help these people in moving the produce. These have also to be helped.

3971. Co-operative banks aim at financing the grower and commercial banks, the merchant and the middleman. Your financing comes at a later stage, when the crop is raised. While you are capable of financing only the middleman and the merchant, the co-operative banks finance the grower. You have admitted that you cannot finance the grower?—I say that we cannot finance the grower, but we must also have facilities to finance that person who is also an integral part of society and who has been helping the agriculturist and who cannot be displaced completely.

3972. Your rates of interest may operate against the merchant or the middleman. What you borrow at higher rates of interest will be lent out to merchants, therefore it is ultimately the producer who suffers?—If we have more funds we would certainly be able to assist them better.

3973. You think the whole of your trouble is due to the co-operative banks offering 5 per cent.?—No, it is only one phase of the whole question.

3974. At any rate you admit that joint stock banks cannot finance the agriculturists?—Yes.

3975. With regard to the Chairman's question about the scope for usance bills, I shall read out to you two passages from the report of the Madras Provincial Banking Enquiry Committee:

> "We shall deal with the distribution of imported goods and consider the case of a small merchant engaged in this business. Imported goods are mostly handled by big European agency houses and they mostly arrange their own financing. The importing firms hold goods on account of these buyers and give delivery on short-term credits of 30 and 60 days' pro-note. Pro-notes are generally kept in the custody of importing firms and retired on the due date. The local merchants who buy goods from these import firms on 30 and 60 days' credit distribute the goods on credit to the mofussil merchants mostly on open account and partly on hundis, or pro-notes on 75 days' credit, but these are not often paid on the due dates and it takes the form of a running account. Bills and hundis play only a small part in these transactions and not to the extent to which there is scope for their use in the trade. This is attributable to the reason that these retail merchants are not in the habit of keeping bank accounts. The absence of a regular system of hundis or bills based on inland trade in the country is a great drawback."

And again

> "The internal trade is financed partly, largely, in fact, by the capital of the merchants of all grades and of the large trading firms. These resources are supplemented by short-term credits of joint stock banks which discount hundis and bills and by the banking and moneylending communities who lend money in the form of credits covered by hundis based on genuine trade transactions and also give advance on pro-notes on personal credit to tradesmen and merchants well known to them for the purchase of goods. These banking communities include in this connection the Marwaris and Multanis, Nattukottai Chettiyars, the Telugu Vaisyas and the Kallidaikurichi Brahmans in Tinnevelly."

I want to know whether you still adhere to the answer you gave to the Chairman. In view of the above quotations, why do you say that there is no possibility of the development of these bills?—I invite attention to what I have said in my memorandum:

> "Accommodation bills may, however, take the place of the 'Kathas' or current or overdraft accounts as between merchants that are now so common. The chief obstacles to the development of these usance bills have been the high stamp duty and the want of rediscounting facilities for banks. Banks would have tried to popularise these bills but there has not been any particular benefit to them by this in the shape of rediscounting facilities by the Imperial Bank. So, if the stamp duty is reduced and if bills are freely rediscounted as between small banks and big and as between big banks and the Reserve Bank, commercial paper will come into vogue, though there is no certainty that accommodation bills will not predominate."

3976. Would you modify your answer to the Chairman by saying that there is scope for development?—These usance bills would ultimately replace the pronote.

3977. Your statement in answer to the Chairman conveyed the idea that these usance bills cannot be developed?—My reply was only as regards selling of produce in the country. So far as import bills are concerned, I have already said that they could be developed.

3978. With regard to your statements about the Imperial Bank, can you give us any instances in which you were personally unfairly treated in regard to cashing cheques?—I have some glaring instances. Transfer of money from one place to another has been one of the facilities given by the Imperial Bank after having taken charge of Government treasuries For other banks the Imperial Bank allows a special rate of 1/32 per cent. for sums of Rs. 10,000 and over, but they have refused this small facility to our bank.

3979. *Mr. Lamond*: Do you understand that the facility is extended between branches?—That is exactly what I applied for.

3980. In respect of which branch?—Our head office is at Masulipatam and we applied for transfer to Cocanada and Hyderabad where we have branches.

3981. Hyderabad is in an Indian State?—The bank is in the British territory. Anyway there is the case of the Cocanada branch. I hand over the correspondence which I request may be returned to me.

3982. *Mr. Ramdas Pantulu*: What is the other matter?—We were having our cheques purchased by the Imperial Bank at 1/8 per cent. When I asked them for rates regarding purchase of cheques, they put up the rate to 3/16 per cent. I hand over the correspondence relating to this matter also.

3983. What do they charge for other banks?—I do not know, I asked for a statement of the terms given by the Imperial Bank and I find that they vary a good deal and that the rates quoted to us are mostly unfair.

3984. Is there any other instance?—The other day when we were opening a branch at Cocanada, I wrote to the Imperial Bank at Masulipatam asking them to transfer a portion of the overdraft limit granted to us to the Cocanada branch for the advantage of the branch there. I put the limit at Rs. 5,000. They wrote back saying that as our head office was at Masulipatam, we cannot have these drawing facilities at any other branch. So far as I know, there are instances where banks deposit all their securities at one place only and ask the Imperial Bank to give drawing facilities to various branches proportionately, not exceeding the total amount of the securities held.

3985. *Mr. Buckley*: Did you ask the Imperial Bank to cancel part of the facility at Masulipatam and give it to Cocanada?—I did. I hand over the correspondence relating to this matter also.

3986. *Mr. Lamond*: Do you know the usual way the banks accommodate? In Bombay the banks get accommodation by taking loans subject to a minimum of three days?—I know, in the case of the Indian Bank at Madras, all securities are held at the head office, and 75 per cent. of the overdraft limit is given at other branches.

3987. The overdraft facility is a very special concession? I do not know why some banks do it and others do not.

3988. *Mr. Ramdas Pantulu*: You said that the possibility of a provincial industrial bank suffering by reason of depression in one particular industry is greater than the case of an all-India industrial bank. If there is depression in the main industry of a province which is financed by a provincial bank, its shares stocks and debentures will depreciate considerably on account of the depreciation in the trade?—But in the case of an all-India bank it may be better able to withstand the depression.

3989. You mean an all-India bank will not be hit to the same extent?—It will be better able to withstand any such difficulties.

3990. *Chairman*: How? The principal industries in India are cotton, jute and perhaps iron and steel. Iron and Steel would not come to an industrial bank. Jute is not likely to come to an industrial bank, because their sources of finance are at the present moment quite adequate. Therefore it is largely cotton. If there is depression in cotton, it will affect all provinces in India. It will not affect one province more than another — But Bombay, I suppose, is the province mostly engaged in it.

3991. The depression will affect all the cotton mills, wherever they may be situated.

3992. *Mr. Khaitan*: I have heard that the cotton mills in different parts of India had different tales to tell, *e.g.*, the cotton mills in Bombay are losing, whereas those at Ahmedabad, Delhi, the Punjab and Madras are making a profit.

Chairman: But not to the same extent as they would have done if there had not been depression in the cotton industry generally.

Mr. Khaitan: That is a different matter, but even at the present moment the cotton industry in some provinces is if I may say so, prospering, while in others it is losing.

Chairman: Therefore, in fact if they are prospering, then they would not go to the industrial bank. Of course, I am glad to hear that from Mr. Khaitan and it will help me later on to put questions to other witnesses.

3993. *Mr. Manu Subedar*: In order to extend banking would you suggest having more branches?—Yes, there should be more branches of the joint stock banks.

3994. Has the establishment of the Imperial Bank of India branch at Masulipatam done any good?—It has reduced the rate of interest.

3995. Has it affected the local banker in any way?—It has been suggested to us that the Imperial Bank competes unfairly with the joint stock banks, and that they may not be allowed to open more branches. What is your view?—I have no experience.

3996. *Witness*: Sir, I wish to bring one fact to your notice. In Cocanada the Imperial Bank charge a commission for collection of our cheques at 1/16th per cent.

3997. *Mr. Ramdas Pantulu*: In the town?—Yes.

3998. *Mr. Lamond*: How far is your office from the Imperial Bank?—It is about four or five furlongs.

3999. If you send us a cheque and if that means that it is only a transfer of cash, there should be no such charges?—At Masulipatam they are not charging, but here in Cocanada they do charge collecting commission.

4000. Even if you send a cheque for the total cheques, they charge collecting commission?—Yes.

4001. Did you see the Agent of the bank in this respect?—No, I have not seen him. My intention is not to complain but only to bring to your notice some facts.

4002. *Chairman*: As I understand, the Imperial Bank at Cocanada might perhaps be thinking that for the return of their own money there is a risk.

Mr. Ramdas Pantulu: This is a case of a bank which has already got money in the Imperial Bank.

Mr. Lamond: You had better write and find out what it was.

Mr. Ramdas Pantulu: Is it your suggestion that in order to discourage your branch in Cocanada, they are behaving like this?—That is what I think. In Masulipatam they do not charge.

Chairman: Perhaps, there is some trouble between your man at Cocanada and the Imperial Bank. Otherwise, how is it that they accommodate you in Masulipatam and not in Cocanada—There is no question of accommodation in this matter. It is only a way of placing obstacles in the development of our Cocanada Branch.

THIRTEENTH DAY.

Tuesday, 9th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Sir HUGH COCKE, Kt.
Dr. L. K. HYDER.
Mr. V. RAMDAS PANTULU.
Mr. W. LAMOND.
Mr. R. W. BUCKLEY.
Mr. NALINI RANJAN SARKAR.
Seth HAJI ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Mr. B. Ramachandra Rao M.A., L. T., **Department of Economics and Commerce, Calcutta University,** was examined.

4003. *Chairman*: Mr. Ramachandra Rao, you are the Professor of Economics and Commerce in the Calcutta University?—I am a lecturer on Economics, Banking and Currency for the M. A. students and also a lecturer for commercial banking. I have got ten years' experience as a lecturer on Banking and two years' experience on Currency. I have been working for a period of thirteen years in the Calcutta University as a lecturer on economics and commerce. I am an author of some books on banking, one is the "Banking in India" and the other "Elementary lessons on banking", that is to say, banking theory for elementary students.

4004. I take it that you have made an extensive study in the field of banking not only in India but also outside India?—Yes.

4005. Have you travelled outside India?—No.

4006. Therefore, you have no personal experience of banking conditions outside India. Is it so?—Yes.

4007. I take it that you have no practical training as a banker?—No. I am a theorist in banking.

4008. You say that fixed capital expenditure and the initial working expenses should first be secured by the shareholders' original capital. When you therefore talk of industrial banks in your memorandum and suggest the grant of facilities to those industrial banks, is it your intention that these banks should finance only the current requirements of industries?—The ideal method of financing an industrial concern is to secure the original capital from the shareholders' subscriptions and if any further extension is required, it depends upon the resources of the industrial concern itself. If we want to start an industrial bank, it should be aided to a certain extent by certain concessions from Government. In the case of ordinary industrial concerns the banks should finance only the current requirement of the existing industries but in the case of new industries to be started and financed by the industrial banks, some facilities should be given by Government.

4009. As I understand you from what you have just told us, it is not your intention that the industrial banks proposed by you should finance the existing industries but that they should only finance new industries.

Is it correct?—No, I do not mean that. An industrial bank is meant to create industries and if the bank has got fixed capital, that will help them much.

4010. For the present I should like to have your idea on this point. You have proposed an industrial bank. We shall discuss the details of that bank later. For the present I want to know this. You said you do not contemplate that the industrial bank that you propose will finance the existing industries. Because your idea is that for the capital expenditure the concern must depend on the shareholders' capital and that they should do so also for the initial working expenses. You say that the existing industries can get their working expenses from the commercial banks to a certain extent. Injustice is done in that particular aspect because the proper valuing of industrial securities possessed by the industrial companies can only be done by the industrial banks. So, would you agree that the industrial bank proposed by you should also finance the working expenses of the existing industries?—Yes.

4011. You have cleared one point. The next point is this. You say that the industrial bank proposed by you should to some extent finance the capital expenditure of new industries and should also finance the working expenses of such industries. Is it not?—According to my own idea there should be specialised industries. If the new industries are started, they should provide for themselves the necessary shareholders' capital and the industrial bank should later on finance the requirements of the industrial company.

4012. What I understand is this. In regard to the new industries your idea is that the block capital should be provided by the shareholders and that the industrial bank should help them to the extent of underwriting. But do you want that the industrial bank should also finance the working expenses?—Yes.

4013. I do not for the present want to discuss the details of the working of the industrial bank, but I wanted to make it clear from you what your views are on the general question of the industrial bank. You say that it is only a bank conducting a mixed banking business that can afford to grant non-terminable loan for long period. Is it not your intention that such non-terminable loans should be obtained by capital subscribed by shareholders?—In this case what I refer to is the commercial bank.

4014. That is all right. It has a reference to the commercial bank. But in view of your first statement which I have referred to in my previous question, this question arises. So, I want to know whether it is your intention that such non-terminable loans can be obtained for the block capital and that the capital for extension should be obtained from capital subscribed by shareholders?—Yes.

4015. You say that the Imperial Bank grants loans to industries but that as these are terminable loans, the industrialists are generally embarrassed. I suppose you are referring to loans for current requirements and to the statutory prohibition against the bank granting loans for more than six months. Would you kindly give the committee an idea of the period for which such loans are required by industries and whether they would not be terminable loans in any case?—The original block capital has already been supplied.

4016. We are talking of working expenses. You have referred to loans for current requirements and so, will you kindly give the committee an

idea of the period for which such loans are required by industries? We want to know whether they should not be terminable loans?—Yes, they should be terminable loans.

4017. You say that there are finance houses in Bombay and Calcutta who are willing to provide long-term loans but that their rates are high. Will you please give us the names of some of these houses and tell us of the rates of interest charged?—I refer to the cases in 1917 and 1918. There was a reference made by a witness in his evidence to the Indian Industrial Commission that Martin and Company and several other houses in Bombay were in a position to give long term loans but that their rates were high. This will be found in the report of the Indian Industrial Commission of 1918. I do not know whether there are any such finance houses at the present moment.

4018. You do not know whether there are such houses at the present time?—The joint stock companies' Registrar issues his annual report and a reference to that report will make it clear.

4019. *Mr. Khaitan*: Have Martin and Company to your personal knowledge made any loans to industrial concerns which are not under their management?—I am aware of that fact. I have read it in the report of the Indian Industrial Commission that the Martin and Company have advanced to the industrial concerns to the extent of Rs. 30 lakhs.

4020. I am not referring to the financial assistance that Martin and Company have given to some tea gardens for their working expenses. I am referring to long-term loans that you are referring to?—I shall make that point clear after referring to the report of the Indian Industrial Commission of 1918.

Chairman: Your answer is that this statement is not based on personal observation but on something else. You make this statement because you read it in the report of the Indian Industrial Commission. We shall be able to turn over that report and see for ourselves.

4021. You refer to the practice of taking deposits by the industrial mills in Indore and Ahmedabad. Do you think that the practice is safe from the point of view of industries?—It is not safe, provided the deposits would be kept for a long time; otherwise it would not be conducive to industrial prosperity.

4022. You say it is not unsafe provided these conditions are fulfilled?—Yes.

4023. Otherwise there is a danger?—Yes.

4024. You have said that the exporter financing himself by the method of refinancing by acceptance is the best method, etc. Will you kindly develop your statement so that the committee may know what you precisely mean?—Suppose first the export bill has been discounted and when the exporter requires further advance there is a question of the bill being accepted and made ready for the discounting market. It is very difficult in this case. If there is a method of refinancing by acceptance, at the time when the exporter requires further funds, he can get those funds by refinancing the bill by acceptance.

4025. That proposal of your practically becomes the same as your second proposal. You have given three alternatives, and therefore I am asking you this question. Your first proposal practically includes your two items, that is financing in the first place by discounting, secondly that

the bills created under the confirmed letter of credit can be ready for the purpose of the discounting market. Under the second condition of yours there comes the question of refinancing. There is a letter of credit and it allows the Indian exporter to draw bills on the bank. It is financing. When the bills so credited are again sold in the market it is the question of refinancing. Is it not?—In the case of a letter of credit there is a particular limit. Although these can be drawn on a bank, the bank takes care to fulfil the conditions mentioned in the letter of credit. There is a particular limit mentioned in one of those conditions. They lay down also the margin.

4026. You say that the bank issues a letter of credit and if the bank has got good bills, the bank would not object to give a further letter of credit and thus the bank recoups itself by selling the bill in the market. It is just the process of what you call the refinancing by acceptance. Therefore, I fail to understand the difference between these two alternatives?—The first alternative is the practical thing undertaken in America.

4027. You make two suggestions. The second is intelligible but about the first I do not understand you fully. You yourself say that the bills can be easily sold in the market. That is the process of refinancing. You also say that there is a limit in the letter of credit. When the process is started and if the bills are good ones, the bank would naturally give a further letter of credit?—The bank always puts a limit in the case of a particular exporter in the matter of bills. But by the refinancing process there is no such limit, as I have already told you.

4028. Take your first clause. You say that an exporter finances himself. He will finance himself by getting somebody to accept his bills?—That is one of the ways to get money. The bank which finances in this way can do so to the extent that it can make. There will be no limit to their resources, as the bank recoups itself by what you call the process of refinancing.

4029. *Sir Hugh Cocke*: I think the witness should be asked to give a specific example.

4030. *Chairman*: If you can give us a specific example what you mean by the first method and by the second method, it will be very clear to the committee?—Suppose I am an exporter of leather goods and in order to manufacture these goods I discount bills to the extent of ten lakhs. If I want further money and if the bank accepts the bill, I immediately draw the original bill upon the Central Bank and get the bill discounted; so, I get further money for utilisation. This is one method. As regards the other if the banks give credit after the finished goods, it is better. There is a risk that I may not be able to make the goods saleable. If the bill is drawn on actual goods there is no question of danger.

4031. *Chairman*: Will any bank accept such a bill which has no security behind it, without being certain of the goods?—Looking into the volume of the business, bills which are sometimes discounted may be even of an accommodation nature.

4032. *Sir Purshotamdas Thakurdas*: You were just now talking of the instance of a tanner and how he exports his hides and skins. Supposing you have sold your April shipment for goods worth say £10,000. In the ordinary course you are asked to draw on some bank in Europe and you have also to attach the other documents to the bill. Is it not so?—Yes.

4033. When will you draw such a bill which you have in mind?—As soon as the goods are shipped I can draw the bill.

4034. Then is it your point that you will draw your bill on your April shipment between the 1st and 30th April?—Yes, that must be done by then.

4035. What we want to understand is your second method of financing of your exports which you referred to?—Dr. H. L. Reed in his book "Development of Federal Reserve Policy" has dealt with this suggestion exhaustively.

4036. *Mr. Sarkar*: Are you referring to the system in vogue in America where even before the shipment of goods exporter's bankers sometimes accept a bill which can be discounted in the open market.—The advantage of this process is that the exporter can get the money quicker?—

4037. *Chairman*: That is easily understandable, a case of local credit given on the personal security of the exporter. Very well, we will leave it at that.

4038. You have also said that the Commission House staying in this country can likewise ask its banker to finance the exports by the method of financing acceptances etc. Will you please elucidate your statement? May I know what is this Commission House you are talking of?—I am referring to the Import and Export houses.

4039. In this case instead of the trader getting the finance from the bank he hands over the goods to the Commission House which thereafter gets a banker to finance it on the basis of the goods. Is that the intention?—Yes, the Commission House will be in a position to find a market elsewhere.

4040. You say that the Tata firms' bills are eagerly brought in the Calcutta Money Market. Would you kindly explain a little more fully the nature of the bills you are referring to, and also give the Committee an idea of the volume of bills placed on the market?—This was referred to by the Bengal Chamber of Commerce in their evidence before the Hilton Young Commission. This is only an indication of the fact that bills are being increasingly drawn in this country and they are being discounted.

If you had stated the source of your information for this statement, we would not have troubled you by putting to you this question. You have no personal knowledge in this matter?—Are not these bills discounted by the banks in the Calcutta Money Market?

4041. *Mr. Khaitan*: May I ask you if you are aware that Tata's firms do not exist in Calcutta?—I am only referring to the fact that bill-drawing is becoming very familiar in this country.

4042. *Chairman*: I fully understand the implication behind your answer. Is this what you are referring to?

(A copy of the volume of the Hilton Young Commission's report containing the evidence of the Bengal Chamber of Commerce was handed over to the witness.)

I don't find any reference to the Tatas Bills at all?—I gathered this fact from the oral evidence of some of the witnesses tendered to the Hilton Young Commission It will take some time for me to elucidate this statement.

4043. You suggest that the primary producer who sells his crop should draw a bill for the amount of sale and get it discounted at the indigenous banker's firm. Do you think that the agriculturists who are the primary producers are so educated as to take to this suggestion readily?—I admit that illiteracy is a very great handicap, but something should be done in the matter of improving the educational facilities of the people as has been suggested by Sir Basil Blackett.

4044. *Dr. Hyder*: Where is your home?—I come from the Vizagapatam town.

4045. Could the agriculturists of Vizagapatam read and write their names in the vernacular?—There are many who can read and write.

4046. *Chairman*: Then, is it your point that until the agriculturists are more educated than they are at present it will not be possible to start this arrangement?—Yes.

4047. Further, will not the fact that generally speaking the primary producer is indebted to somebody for his production and other expenses make it impossible from a practical point of view to pursue your suggestion?—If there is previous indebtedness, then it is impossible.

4048. So, unless we can make the agriculturists more educated, you say from the practical point of view, it is impossible to carry out your suggestion?—In the near future it might be undertaken.

4049. You say that the Indian joint stock banks should finance the indigenous bankers who by discounting produce bills can easily remove the ryot's dependence on the vicious and injurious system of credit granted by the mahajan. Am I correct in assuming that by produce bills you mean bills for the amount of sale-proceeds of produce?—Yes.

4050. If so, how will they enable the primary producer to avoid taking loans from the mahajan for his production and other expenses?—If co-operative societies exist there then there will be no difficulty, as the producer will be able to get his requirements from the society.

4051. You are no doubt aware that these co-operative societies have as yet only touched the fringe of the agricultural population?—That is a general statement against the co-operative movement, but here and there the movement has made considerable progress.

4052. If you had tried to study the agricultural conditions in your own district of Vizagapatam, you would have discovered that the co-operative movement has benefited only a very small portion of peasantry?—That is so.

4053. Will you therefore admit that your suggestions are largely theoretical without due regard to the actual conditions prevailing in the country?—I think if an attempt is made, it may be possible to act according to my suggestion. It may be within the next 10 years or even 25 years.

4054. In the Province in which the Co-operative movement has made the greatest progress in this country, the Provincial Banking Enquiry Committee has said that it will take another 15 years at the least for the movement to extend to at least 75 per cent. of the population. Conditions in the other provinces are far worse. Therefore, if you say that your suggestion is only the ideal to which you are striving at, I am quite prepared to take it at that?—I agree.

4055. You say that the present cash credit system enabling exporting houses to secure the products for export is bad and is not conducive to the interests of the banker and the ryot. Will you please explain how it affects the interests of the banker?—If the raw material were converted into the finished product, then there would be more scope for the bankers to utilise their finances for the betterment of this country in finishing its own raw material into finished products in this country.

4056. I did not know that you were talking of the conversion of the raw produce into manufactured goods because it is not possible in certain cases such as that of tamarind. Then what modifications would you recommend in the present system?—I would suggest the provision of the cash credit system for the benefit of the middle-men in the interior and the discounting of export bills in the matter of financing of the export trade. Personally, I prefer the latter arrangement as being very good, for with the spread of education more people would prefer to draw bills and have them discounted.

4057. Under the present arrangement the exporter does not get enough resources, but under the arrangement you propose, his resources would be broadened. Is that what you mean?—Yes.

4058. That, of course, may not be acceptable to bankers. Very well, we will proceed. I find it difficult to understand your sentence "*It* would take long time and would also require the production of large quantities of standard products under the ægis of co-operative producers' societies and these can sell them to the co-operative sale societies". Will you please tell me what you precisely mean by your first word *it* in the sentence quoted by me?—I am only referring to the circumstances and other considerations.

4059. *Mr. Ramdas Pantulu*: Possibly he means after the development of the co-operative movement?

4060. *Chairman*: Anyway, we shall not proceed with that point at this stage. You say that the lack of industrial knowledge and constant touch precludes existing commercial banks from conducting industrial financing. Would you kindly tell the Committee how you propose to establish this touch and to secure the necessary knowledge in the case of the proposed industrial banks?—The opinion of the industrial experts in the Industries Department of Government might be enlisted; secondly, members of the Board of Industries could be expected to give opinion regarding the successful financing of industries. I want the Industrial Banks to make some use of the existing Industries Department and the industrial experts available.

4061. You suggest the starting of a Board of National Investment for India to supervise the work of investment trusts and to enable them to do part of the work of financial underwriters. It has been suggested that the idea of an investment trust is altogeher novel in India and that it is not possible to get public subscriptions for such institutions from the Indian public. From your study of the growth of such institutions in other countries of the world can you give the Committee any information as to how these institutions were developed in those countries?—In England when the rate of interest was low, the investment trust was started, and later this model was followed by the American Investment Trust, but ultimately deviated from the English model. I want the English form of investment trust to be introduced in India; and if it has not so far been

introduced, that in my opinion is no reason to suppose that it is not a practical proposition.

4062. Do you think that with the present high rates of interest prevailing in India, there would be no difficulty in starting such trusts in India?—I do not think so.

4063. We have heard from other people who have come before this Committee that it is not a practical proposition, under present conditions, to establish an investment trust in India.—From the theoretical point of view, there is no reason why we should not advocate this. In my opinion an attempt must be made some time or other and that the development of investment trusts should be one of the main recommendations of the Banking Enquiry Committee.

4064. On page 3 of your memorandum you say "America possesses cattle and automobile companies. Both industries have flourished on account of these middlemen and the nature of these companies, if started, would necessarily be of the type of industrial banks." When you are talking of middlemen, are you referring to industrial banks?—I am referring to middlemen such as the financing companies.

4065. You say that in India if an automobile industry has to be established, it must make use of the industrial bank. Your reference to the cattle industry, if I may say so, is most inappropriate; surely you do not want industrial banks for the promotion of cattle industry in this country? —My point is that certain industries have been developed elsewhere by these financing companies, and the same practice could, in my opinion, be followed successfully in India.

4066. In regard to industrial banks you suggest that they should be exempted for a few years from taxation. Would you make your suggestion a little more definite and say what taxation you are referring to and for what period you propose these concessions to be continued?—The industrial banks should be exempted from the payment of income-tax for a few years, say 5 or 10; another concession I have in mind is regarding the guaranteeing of interest by Government.

4067. You also suggest that the process of realisation of money should be made easier than at present. Would you explain to the Committee a little more fully your ideas in regard to this suggestion?—Law's delays are proverbial, more so in this country.

4068. *Mr. Ramdas Pantulu*: Specially for bank's suits or for other suits?—For all suits.

4069. *Chairman*: You further suggest that the initial stamp duty should be less than at present. Can you give the Commitee an idea of the present cost and what reduction you propose in the case of the proposed industrial banks?—Registration fee on authorised capital of all banking companies should be reduced.

4070. Can you tell me what the registration fee is and to what extent you would have it reduced?—That depends upon the amount of the authorised capital of the company. It should not be imposed on the authorised capital, but on the subscribed capital of the concern.

4071. Reading your book ("Present day Banking in India") I find that you want these facilities not for industrial banks but for new industries. Is my impression correct?—In the case of industrial banks such facilities might be granted. If the object of the State is to encourage industries,

the granting of exemptions might as well be considered. The financing of industries should be made easier since that would conduce to the development of new industries.

4072. You say that no directorial obligation should fall on the heads of industrial banks. Would you kindly explain what you mean by 'directorial obligation'?—In my opinion the Industrial Bank should be the sole agency; the administrative capacity and other things should not be saddled upon the industrial bank itself.

4073. On page 3 of your memorandum you begin by saying that the real problem of industrial regeneration has been overlooked by the terms of the Questionnaire. Do you really think that it is the function of a banking enquiry committee to pursue matters connected with the problem of industrial regeneration?—Banking is the soul of all industrial development, and therefore I think the carrying out of surveys of economic conditions is not altogether outside the purview of a banking committee like this.

4074. *Mr. Ramdas Pantulu*: Have you read the Report of the Economic Enquiry Committee presided over by Sir Visweswaraya?—Yes.

4075. Do you know what programme they have recommended for the economic surveys of the provinces?—They recommend that such surveys ought to be limited.

4076. Do you think that such a programme can possibly be pursued by a Committee like ours?—It cannot be.

4077. Have you read the reports of the Provincial Banking Committees?—A few; I have read the Bengal and Madras reports.

4078. Do you think those Committees have given surveys of economic conditions in their provinces?—To a certain extent.

4079. *Chairman*: You refer to the necessity of a preliminary economic survey of each Province so as to envisage the possibilities of new industries that can be started. I take it that this survey should in your opinion be done by the Government?—Certainly.

4080. After this has been done would you leave it to private enterprise to take any action necessary to start new industrial enterprises based upon this survey?—Pioneering on the part of Government would of course be essential; later on it is for private enterprises to carry on the work.

4081. What do you mean by 'pioneering'? Do you intend that Government should at that stage supply capital?—The duty of Government does not stop with the taking of mere economic surveys.

4082. Will you kindly tell the Committee what specific action you contemplate should be taken by the State in the direction which you envisage?—Action on the lines followed by the Madras Government in the case of the aluminium industry, or by the Mysore Durbar in the case of industries within the Mysore State, or by the Hyderabad State in the matter of industrial development. The Government of India should be in a position to take up similar lines of action.

4083. So you admit that some of the Provincial Governments have taken action in that direction. Now is it your desire to make a distinction between the Government of India and the Provincial Governments, or is it your suggestion that apart from the action taken by the local Governments, in this direction, the Government of India should take some

action?—If the Government of India have delegated these functions to the Provincial Governments, they might secede from that position.

4084. Therefore it comes to this: that it is the function of Provincial Governments, generally speaking, under the present constitution and also according to your idea, to undertake the development of industries; and if that has been done in several provinces, then obviously you have nothing more to say?—My contention is that the pace of industrial development is not adequate; it should be accelerated.

4085. *Chairman*: You say that various industries can be started in this country provided there is a suitable conjunction of financial resources and industrial talent and adequate business organization is forthcoming. In your opinion would such conjunction be possible under present conditions in India if financial resources were available?—The position is not now so hopeless as it has been in the past; it has improved to a certain extent, and I think that inasmuch as company organisation and business management are being taught, there is a possibility of success if financial resources are forthcoming.

4086. Am I to understand that, because eminent people like you have been teaching economics and banking, that would lead to the growth of industrial talent and adequate business organisation in the country?—When these are forthcoming, success is possible.

4087. The point underlying my question was whether you think that under present conditions industrial talent and adequate business organisation are forthcoming?—To a certain extent. Some of our people have gone to foreign countries, acquired knowledge and returned and if financial resources were also placed in their hands, they might be able to develop a type of industries in which they might acquire practical experience.

4088. Some witnesses who have given evidence before us have gone so far as to say that in starting new industries India will have to import foreigners possessing the necessary qualifications. Your view is that the talent is there?—In certain of the advanced industries there might not be the Indian industrial talent, but where Indian industrial talent is existing, financial requirements should be forthcoming.

4089. Are you aware of cases in which certain Governments did provide some of these gentlemen with resources with the result that that money was lost to the taxpayer and therefore Governments have become more cautious in the matter?—That is also true to a certain extent as is seen from instances quoted in "State and Industries" by Mr. A. G. Clow.

4090. You say that in the case of existing industries the finance required for further extension should be obtained either from the reserves or from flotation of debentures. It has been suggested that debentures are not very popular with the public in India. Would you kindly tell the Committee whether you have any knowledge or experience of these debenture issues?—I have no personal experience of any company floating debentures for obtaining additional capital. I know the case of the Tata Company floating debentures in the London money market, but it would be impossible to float debentures in this country.

4091. You say that unless an extensive use of bank acceptance is forthcoming and an adequate market exists in India there would be no proper co-ordination between the activities of the exchange banks and the commercial banks. Would you kindly help the Committee with your suggestions as to how this acceptance business can be promoted in India?—

I have already spoken of the acceptance business in my book "Present-day banking in India". If bills can be created, if there are acceptance houses or firms able to undertake this business and if these bills are discounted by ordinary banks on the strength of the shroff's acceptances, there may be easy scope for development. A sort of specialising agency must be created in the beginning in order to ascertain the standing of the different parties; and when such an agency is created, there would be the possibility of developing the acceptance business.

4092. You say that if the exchange banks need adequate funds for their operations in India, there is at present no means of re-discounting or disposing of their import bills in this country. May I suggest that your reference to the needs for adequate funds is theortical as the exchange banks in their memorandum submitted to this Committee have said that so far as they are concerned they have ample resources to finance the foreign trade of the country?—That is the usual statement put forward by the representatives of exchange banks. At certain times when exchange becomes fluctuating, there are difficulties in the matter of financing export trade. They are not due to want of adequate funds, because the exchange banks are quite willing to bring in funds from London to this place, but to the non-development of forward discount markets and the stability of the exchange. A specialised market such as exists for the Dollar Sterling Exchange does not exist in this country as between the sterling and the rupee. That sort of market must be created in this country, so that exchange might be tolerably stabilised, and exchange risks eliminated.

4093. *Mr. Buckley*: Are you not aware that the exporter who wants to cover his forward business can always cover his exchange and it is the exchange bank that carries the risk and not the exporter?—It is not the duty of the exchange banks to buy and sell bills at such rates as would give the exporters steadiness to the rate. We must develop the forward exchange market in order to give steadiness to the rates.

4094. *Mr. Rushforth*: Do you realise that the forward market in India is one of the most highly developed forward exchange markets in the world?—You have the highly developed form of market in London. In the case of certain countries there is direct relationship between the rupee and foreign countries, while in the case of others there is no such direct touch. For instance, if you take the money market report and see the quotations reproduced at the end of a day in the newspapers, there are certain gaps which show that there is no direct touch on that particular day between that particular country and India.

4095. Do you not realise that it is because there would be so many gaps to be filled in that the newspaper is unable to quote all the quotations of the day which are available?—I mean to say that there is not so much of the specialisation in forward exchange here as we meet with in America or England. If forward exchange is specialised to a great extent, there would be some steadiness imparted to the exchange rate.

4096. *Mr. Buckley*: Can you give the Committee a specific instance of any merchant who has wanted to do forward exchange business with any country and has not been able to do it —I do not know of practical instances.

4097. Do you understand that only the quotations for the countries with which India is particularly concerned appear in the newspapers and

that if a merchant wants a quotation for any other country it is always obtainable from an exchange bank? There is no object in filling up newspapers with quotations for countries where you may only be asked for a quotation perhaps once a month or once in six months, and considering the risks that the exchange banks take upon their shoulders, the merchants get most favourable rates of exchange even one year or eighteen months ahead?—That is possible to a certain extent, but I want to stabilise the rate of exchange and see that the exporter is assured of a steady rate.

4098. *Sir Purshotamdas Thakurdas*: Do you agree with what Mr. Buckley says?—I do not.

4099. *Chairman*: You refer to the various counts of indictment against the foreign exchange banks as they exist at present. Would you kindly tell the Committee whether you yourself have anything to say on any of these charges based on your knowledge or experience?—I shall take the counts of indictment one by one and try to give you my experience. As regards the indictment that foreign exchange banks compete with the Indian joint stock banks not only in the matter of securing deposits but in financing borrowers in the slack season, there is some amount of truth in it.

4100. I want to know whether you can in any way substantiate this charge from first-hand knowledge.—As a theoretical teacher, I cannot hope to have any first-hand knowledge on practical affairs of banking. I have heard responsible people repeating this charge.

4101. Does that apply to every one of these statements? You have heard responsible people make these charges, but as you are only a theoretical lecturer you can say nothing in regard to any of these charges from personal knowledge?—No. I have not had any opportunity to verify any of these statements.

4102. You say that in view of their past opposition to the Central Bank proposals, it is likely that when the Central Bank is started, the exchange banks would possibly refuse to co-operate with it. Would you kindly tell the Committee to what past opposition you are referring? Are you aware that in connection with the Reserve Bank Bill the British Exchange banks furnished the Government with a helpful criticism of the Bill and did not show any spirit of non-co-operation as suggested by you?—There was a Conference, held in 1899 during the time of Lord Curzon, of the Presidency Banks to form a Central Bank and at that time the exchange banks did not very much like the idea.

4103. *Sir Purshotamdas Thakurdas*: What literature can you refer us to for the details of this?—On page 642 of my book "Present-day Banking in India", I have given the history of the proposals relating to the Central Bank.

4104. *Chairman*: But there is nothing there to show that the exchange banks at that stage opposed the idea of a Central Bank. Apparently their opposition was to give the Amalgamated Presidency Bank, which was all that was contemplated then, access to the London money market?—I may refer to the oral evidence given by Mr. Charles Nichols before the Hilton-Young Commission, Vol. V, Question Nos. 14156 to 14158 in reply to Sir Henry Strakosch on Central Bank. In reply to the questions whether he would co-operate with a Central Bank, the witness declined to give answers. In his Book on 'Imperial Bank', Baster is not very enthusiastic about the

conception of a Central Bank. I could give certain further references to the points of difference on the part of the Exchange Banks in regard to the formation of a Central Bank in this country.

4105. If, when the Government of India brought forward the Reserve Bank Bill the Exchange Banks did not oppose the idea, would not that indicate that they had in any case modified the attitude which they had previously taken up?—There might be a change of opinion.

4106. You have devoted a whole section of your memorandum to the advantages of financing India's foreign trade entirely with the help of her domestic resources. Could you kindly tell the Committee what part domestic and foreign resources play in the financing of India's foreign trade?—The London money market is in a position at present to re-discount our D. A. bills and it is the exchange banks who are able to finance the foreign trade to-day with the help of Indian deposits. We should be in a position to impress upon the London money market authorities that similar access should be granted to Indian Exchange banks that might be conducting foreign exchange business. Indian Exchange banks with rupee capital are not in a position to obtain the same facilities as foreign exchange banks are with sterling capital, and I think that was also the experience of the Tata Industrial Bank when it began to conduct foreign exchange business. Their bills were not discounted even by the Bank of England on the plea that it was rupee capital. They might have been re-discounted in the London money market, but that was quite a different thing. So far as the Bank of England is concerned, there is a specific provision which limits re-discounting only to particular banks possessing sterling capital.

4107. Is there such a provision in the Bank of England Act?—It might be one of the by-laws.

4108. *Mr. Khaitan*: It is the practice of the Bank of England to re-discount only such bills as bear two English signatures.

Chairman: But the witness said that it is provided in the by-laws of the Bank of England that the Bank of England would only re-discount the bills of those banks which have a sterling capital.

Mr. Khaitan: It comes to the same thing as the bank with sterling capital would be an English institution.

Sir Purshotamdas Thakurdas: I do not know if it is in the by-laws, but it certainly is the convention.

4109. *Chairman*: It has been mentioned to the Committee that exchange banks have to bring out funds from London at the commencement of the busy season for financing India's exports and that these funds are returned later when the exports are shipped. Do you consider it possible or advantageous to dispense with recourse to external funds?—We should not dispense with recourse to external funds which can be utilised for the finance of trade. But there is no reason why our profits should go out of this country. If there can be any arrangements whereby the Indian exchange banks can have branches in London it will be all right. The question of financing foreign trade with the help of domestic funds would be a clear advantage.

4110. Do you advocate that this inflow of external funds into India in certain season should be stopped?—It is not immediately fessible. Unless

domestic capital resources extend there is no question of stopping the inflow of external funds.

4111. You say that since the dismal experience of the Tata Industrial Bank, it is becoming practically impossible to create strong Indian joint stock banks for conducting foreign exchange business alone. Could you give the Committee a fuller idea of the experience of the Tata Bank in regard to this exchange business and what lessons you draw from a study of that experience?—It was stated that there was a lack of discounting facilities in London. It was not in a position to have its balances converted into rupee resources. This has acted as a great handicap in foreign exchange business. One of the economists used the expression that the Tata Industrial Bank was treated as a pariah. It may be true, or it may be an exaggeration, but he said so.

4112. You say that the proposed Indian Overseas Bank should maintain always in its initial stages rates above one or two points more favourable than those of the foreign exchange banks in this country. May I take it that in your opinion the rates now quoted by foreign exchange banks to merchants and traders are not competitive rates and that the new Overseas Indian Bank that you propose would be able without incurring any loss to quote more favourable rates than the existing exchange banks?—The present rates of the exchange banks are competitive. I do admit there is a competition existing amongst the eighteen exchange banks. As regards the second part of the question I consider that no losses will be incurred by the Indian Overseas Bank; there will be the Reserve Bank and whatever the balances there will be can be utilised for financing the exchange operations. I have in mind the relations that are existing between the Yokohama Specie Bank and the Imperial Bank of Japan. A two per cent. lower rate is distinctly granted to the Yokohama Bank in order to help it to do the exchange business.

4113. Your proposal is this. That the Reserve Bank, when it is established, should lend money to the proposed Indian Overseas Bank at rates lower than the prevailing market rate?—For the purpose of utilising the funds for exchange business.

4114. But you say that the Reserve Bank should lend money to it at a lower rate for that purpose?—Yes.

4115. Therefore the loss would be transferred to the Reserve Bank?—There is no definite loss.

4116. If the Reserve Bank were to lend money at a lower rate to the Indian Overseas Bank, will that not involve loss to the Reserve Bank?—There is a short period and long period. In the short period, there may be a loss; but in the long period when the Indian exchange banks undertake this work, there will be a double gain to the country.

4117. I am not talking about the country. In the case of the Reserve Bank there cannot be a long period and a short period. There will be a loss to the Reserve Bank?—A Central Bank is after all for the best interests of the country and in considering that fact it should bear that loss.

4118. So, you say that the Reserve Bank should suffer that loss for the benefit of the country?—Yes.

4119. You say that the formulation of a well-conceived plan like that indicated by you would be far more advisable than the enactment of futile

and mischievous programmes to limit the services of the present-day foreign exchange banks of this country in the direction of financing our growing foreign trade. Will you please explain why you consider the programmes to be futile and mischievous?—From the theoretical standpoint, we should not take away the deposits from the exchange banks. Because it is quite likely that they will have a hoarding tendency. If we were to get away their right of taking deposits, we shall be injuring them. That is one thing. Secondly, it might be taking over the burden upon our shoulders by way of encouraging the hoarding tendency to a certain extent. I should have every freedom to put my deposits in any bank I like. If I find that a particular exchange bank will be quite safe, I should be at liberty to deposit my moneys in that bank.

4120. *Mr. Ramdas Pantulu*: Will not the deposits which are now flowing into the exchange banks flow into the joint stock banks?—I have already said that there will be a gap.

4121. You say that the "oral transfer" of shares in order to evade the payment of stamp duty has to be prohibited. Have you any evidence as to how far such a practice is prevalent?—There is a mistake there. Instead of the word "oral" it should read as "blank".

4122. You suggest that half of the subscribed capital should be paid down at the start of the banking company's business and that the remainder should be paid within twelve months. Is it your intention that banks' shares should be fully paid-up?—There is no harm in having the fully paid-up shares. If there are fully paid-up shares the value of the bank shares will not fluctuate in the stock exchange. The capitalisation of the bank should be done in such a manner as to take into consideration the nature and character of business requirements and also the actual capital of the bank should be proportionate to the requirements of the particular locality.

4123. Do you want that a certain amount of capital should be paid up before the bank starts its business?—Yes, certain amount should be paid in proportion to the requirements of the business.

4124. You say that certain amount should be paid-up capital. It does not follow that the bank shares should be fully paid-up?—It does not follow. But I say there is no harm in having fully paid-up capital.

4125. There is no harm in various things. My object in asking you this is to ascertain what your proposal is?—By having fully paid-up shares there is an advantage that the share value does not fluctuate on the stock exchange. Suppose rumours are spread against a bank during its first year, the value will go down.

4126. *Mr. Khaitan*: Does not the value of the shares fluctuate in relation to the amount of dividend paid?—The question of dividend comes after some years' working of the bank. But during the first year, if there is any rumour against a bank, there will be no further capital available for the bank's development.

4127. Is that your experience of rumours in India?—I have very little experience of stock exchange.

4128. *Chairman*: You said that when a bank is started, it must have a certain amount of paid-up capital. I can fully understand that, because it will inspire public confidence. When once that is secured, I fail to

understand your second proposal that the bank's shares should be fully paid-up?—We get immediate opportunity of utilising that additional capital. If you go on calling on the shareholders to pay more subscriptions towards their shares and if there are any rumours in the market about the bank, they will not pay further calls.

4129. You say that share-hawking in the case of banking companies ought to be prohibited. Have you any evidence as to how far such a practice is prevalent at present?—When new companies are started, people go to those who have got money and ask them to invest their money in the bank shares. Even though they have no confidence in the directors of the companies, still people go in for such shares on the recommendation.

4130. (1) But how can you provide a legislation to prevent this?—I simply say that the hawking of shares should be prohibited.

4130. (2) Suppose I want to float a new company and if there is a provision in law that hawking is not allowed, how can I sell the shares of that company?—You can do so through certain recognised brokers.

4130. (3) How will you know that these legitimate share brokers will not hawk?—They may do so; but what I mean to say is that they should be legitimate brokers.

4130. (4) Suppose I hold certain shares in the Imperial Bank and instead of going to a broker I go to Sir Hugh Cocke and ask him to buy those shares from me. If there is any law prohibiting hawking, I myself and Sir Hugh Cocke will be penalised?—The best way for you is to go to Stock Exchange.

4130. (5) You said just now in regard to deposits that a person should be at liberty to deposit his moneys wherever he likes. And in this case why should not I have the liberty to go to Sir Hugh Cocke direct?

Sir Hugh Cocke: I think the witness is referring to the new Companies' Act under which hawking was prohibited in England.

4130. (6) *Mr. Khaitan*: Are you aware that in the Stock Exchange only those shares which are on the list of Stock Exchange are allowed to be sold and bought?—Many students approach me for purchasing shares, but I refuse to take from them. I only go to the Stock Exchange.

4130. (7) *Chairman*: In regard to foreign banking companies you suggest that a license fee should be levied and that similar restrictions, as are imposed on the domestic banking companies in the country of their origin, can be imposed on the foreign banking companies. Would you explain your proposals regarding restrictions in this particular sentence a little more fully?—I mean restrictions which are there in the case of Indian Joint Stock Banks. Those restrictions can be applied to the foreign exchange banks as well.

4130. (8) You say that foreign banks should be required to appoint Indian citizens on their staff, based upon the precedent of Turkey. Would you kindly help the Committee with any information you may have in regard to the practice in Turkey?—I would refer you to the London Bankers' magazine. There was a notice served on the Ionian Bank in the case of Turkey.

4130. (9) You say that in Turkey they engage their staff on 50 to 50 basis. That does not mean that a particular bank should take up men in

the higher posts. If there are 50 people in the Bank, 25 men may be clerks and peons. So, how can your suggestion be carried out as regards the appointment of Indian citizens as bank managers?—I mean Indianisation of bank staff.

4130. (10) You make this statement but I want to know what authority is there that there should be 50 to 50 basis?—There is no authority.

4131. *Chairman*: You give four reasons why there can be no proper co-ordination between schools and colleges on the one hand and banks on the other. Taking your first reason, can you tell the Committee whether you have any grounds for thinking that the practical banker has a positive contempt for teachers and professors?—That is my experience and feeling.

4132. As regards your second reason, I may mention that the Committee have been told that at the request of heads of colleges and institutions in Bombay, apprentices are being entertained by banks such as the Central Bank of India and the Bank of India and that while some of apprentices are taken with a view to employment on the bank's permanent staff, the others are merely given facilities to enable them to appear for the Banker's Institute examination. In view of this, do you think the difficulty you point out is insurmountable?—If such concessions were granted by all Indian joint stock banks there will not be much difficulty in bringing theoretical students in banking into touch with practical banking methods. So far as the students are concerned, there might be some who take up banking as their profession while others might take to practical banking only for the sake of study.

4133. Indeed, one of the leading educationists of Bombay, the principal of a College of Commerce, told us that such facilities exist there, but I cannot understand your suggestion of boys taking up to banking education simply for the sake of gaining knowledge and not for taking it as their career?—The fact is that students who are taken on as apprentices in banks are taken only with a view ultimately to absorb them into their staff. Such apprentices would not reveal the secrets regarding the internal working of banks.

4134. Another gentleman from your part of the country told us that some specific provision should be made in the case of these apprentices that they would not take up an appointment in any other banks. Is that also your view?—Some such provision should exist so that no harm would be done to the bank which afforded special facilities for practical training.

4135. As regards your third reason, is it your intention that when banks undertake to train apprentices, regular classes should be held inside the banks as in schools and colleges? Should it not be left to the apprentices to learn the practical side of banking by close contact with the bank's staff engaged in the daily work of the bank, supplemented if necessary by lectures by practical bankers on topics of special interest under the auspices of a central banking institute such as the Indian Institute of Bankers?—The second arrangement that lectures should be delivered by the Institute of Bankers is superior to the first arrangement. In the absence of lectures under the auspices of the Indian Institute of Bankers, I think banks in the mofussil centres should hold theoretical classes side by side with practical training for the benefit of their apprentices.

4136. Why should you have this theoretical training at mofussil centres. Why not concentrate such specialised studies to bigger cities where there are colleges?—It is all a question of expense. What I want to convey is merely this that if there are facilities for such training in the mofusil, there is no reason why banks should not be made to start such classes so that the officers of the banks can devote a few hours of their evening time to train such students.

4137. Even there it is all theory. You assume that the bank officials will have the spare time and the willingness to do it?—I suppose they will if they are paid some extra tuition fees.

4138. You say that Indian banks do not provide any facilities for the training of boys in banking business as do the *big five* of London or the American Banks. Can you tell the Committee what facilities are provided by the foreign banks you refer to?—Dr. L. M. Minty in his book "English and American Banking Methods" has thoroughly dealt with this matter. The principle is of promoting junior clerks to the position of officers.

4139. Dr. Minty refers to the difference in the method of training young men whom these banks take in their permanent staff. On the other hand, here you are talking of boys who do not want to take to banking career?—Some of them might take to banking as their career if they find there are vacancies. Take for example, Dr. Minty's own case. After completing his studies in banking in England, he approached the banking authorities in London and got a scholarship for the study of banking conditions in America. After the study abroad he returned to England and published his book and thereafter got his Doctorate degree. He got such special facilities, whereas in India such facilities are not offered at all.

4140. That is a different matter. There is nothing to prevent the grant of such scholarships in India as well, either by banks or private institutions or even Government. You say that the Imperial Bank does not care for banking knowledge as one of their important qualifications on the part of selected apprentices. I understand that in the scheme of probationers followed by that bank it is stated that preference will be given among others to candidates who have obtained the B. Com. Degree from the Sydenham College of Commerce, Bombay. Is there any college similar to this in Calcutta and have any attempts been made to approach the Imperial Bank to include the products of such a college within their probationers' scheme?—The Calcutta University has now made provision for the B. Com. Degree for the last three years. So far as I am aware, the University authorities have not made any attempts to have their examination recognised by the Imperial Bank of India as a requisite qualification for candidates taken on as apprentices.

4141. You refer to the fact that some of your students entertained by the Imperial Bank have never risen to positions of responsibility. Can you give the Committee some instances giving their qualifications, experience and present position?—I have known of several of my own students who have been working as clerks in the Calcutta branch of the Imperial Bank Savings Bank branch for the last 6 or 7 years together. I have also known of students who are in similar plight in the Calcutta branch of the

Central Bank of India, and they are also not getting their due and adequate promotion.

4142. *Chairman*: In the cases which you refer to, so far as the Imperial Bank of India is concerned, were the students taken as probationers?—They were all taken in as clerks.

4143. I am afraid the discussion has taken a different colour now. However, we will leave it at that. You say that major banks should select pupils from schools and colleges and train them in specialised courses in banking and that the expense incurred by the banks need not be refunded if the pupils from schools and colleges turn out to be unfitted for the banking work. Do you think it reasonable to expect banks which are after all working for profit to forego money spent on such training if the pupils are found unfit for employment by them?—The American banks are pursuing such a course of action. If some of the Indian joint stock banks would introduce a similar course of training, it will be good.

4144. You say that American banks are pursuing that course, but shall I be able to find out the reference in Dr. Minty's book?—You can find the reference in Walter Leaf's presidential address and other presidential addresses delivered at the London Institute of Bankers' Annual meeting.

4145. Do the English banks also pursue the same course?—No.

4146. You refer to the expansion of the general agency business by banks as a sure means of bringing in greater deposits and more constituents. Would you kindly tell the Committee what you mean by 'general agency business'?—I am referring to the gratuitous work done by English banks under the general agency scheme. If such services were extended by banks in this country to their clientele, there will be greater satisfaction amongst the bank's constituents and the business will also increase.

4147. Do you mean to say that banks do the agency business gratuitously for their customers?—Yes.

4148. *Sir Purshotamdas Thakurdas*: Can you name one or two gratuitous services you are referring to?—Bagshaw has explained in his book "Practical Banking". They are doing transactions, like the buying and selling of shares, execution of standing orders, etc.

4149. But the banks charge you for it?—Yes, here in India banks do charge, but I am suggesting that banks should do these things gratuitously for their customers.

4150. You suggest the possibility of selecting a few depositors as bank directors. Will you kindly explain to the Committee how this suggestion can actually be carried out in practice?—Mr. Thakore in his book "Organization of Banking in India—1927" has definitely suggested proposals in regard to this. Just as the shareholders have got a stake in the bank, so also have the depositors and it is but meet that the latter also should have power to elect their own representatives to be directors of the bank, to safeguard their own interests.

4151. *Chairman*: You suggest that those taxes which are interfering with the development of banking should be removed. Can you kindly tell the Committee what the taxes you refer to are?—As I have mentioned in my statement, when a new company is formed as a result of amalgamation,

registration and other fees have to be paid. That is a handicap on the amalgamation scheme; therefore these fees should be abolished.

4152. Therefore, the only tax that you recommend for abolition is the registration fee.—Yes.

4153. You suggest that 'a few other banks' should be selected as public depositories after exacting due security with a view to create confidence in the banks. Would you kindly tell the Committee on what basis you would select the few other banks?—If the Committee agree to the suggestion that there should be other banks also selected as Government depositories, then the question of safety of creditors' funds should be considered. For instance, in America, every bank is called a Government depository. I would suggest a reference to the statement issued by the Controller of the Currency in the United States of America for the conditions upon which banks are selected as Government depositories. To start with, it was a war measure; but it is still in vogue.

4154. Am I to understand that for the basis of selection, you would like us to adopt the American arrangement?—Yes, if the banks selected give us absolute confidence as regards their stability.

4155. *Mr. Ramdas Pantulu*: Have you any scheme to link up rural credit with the banking system of the country?—The Central Bank should stand at the top of the entire banking system and should supervise the joint stock banks which should, in turn, act as intermediaries between the ordinary banks and the indigenous banks or shroffs.

4156. Who would ultimately finance the agriculturist?—You have got the co-operative system; you have got industrial banks; if they are not available immediately, they can be created.

4157. Have you studied the provisions of the Commonwealth of Australia Act and the South African Agricultural Credit Act?—Yes, to a certain extent, so far as extracts appear from time to time in the Royal Economic Journal.

4158. What do you think of the provisions in those Acts in relation to rural credit?—The existing co-operative system in India should not be interfered with. It is already working on sound lines. When we have a satisfactory machinery for development of rural credit, there is no reason why we should go after systems in other countries. Let us adhere to and improve the system that we have at present.

4159. In those Acts, a certain proportion of the resources of the Central Bank, for instance a part of the profits from Note-issue, is earmarked for rural credit. What is your opinion regarding their application to conditions in India?—I believe the Government of India are also doing something on those lines.

4160. Have you had any experience of co-operative banking in this country?—I have seen the working of co-operative stores and co-operative societies.

4161. Do you know that some co-operative banks are suffering from want of sufficient funds?—I understand that in the case of some there is a plethora of funds.

4162. What would you suggest as the best means of investing those surplus funds?—Co-operative banks should be allowed to do commercial

banking without sacrificing the spirit or the functions of the co-operative system proper. I would establish a close link between the provincial apex bank and the money market of a particular country. I would place the whole of the funds in the commercial bank, because there is a close link between the co-operative system and the funds available at the apex centre and the short term money market of the country. That sort of link must be perfected. If you create an all-India co-operative bank, that would not satisfy our ideals.

4163. So you are not in favour of an all-India co-operative bank?—I am not.

4164. Have you carefully studied the syllabus of the Institute of Bankers' examination?—I have not studied it for lack of opportunities.

4165. Do you think that any modification in the present syllabus is necessary? If so, on what lines would you modify it?—I want to see the syllabus first; I will then suggest what modifications are necessary. One thing is certain: Foreign Exchange must be studied in detail and there ought to be a separate paper on the Theory and Practice of Banking.

4166. *Mr. Rushforth*: On page 12 of your memorandum you say, "If Indian joint stock banks give up other entanglements and specialise in foreign exchange business, they can easily succeed if they conduct sound exchange banking." What are the 'other entanglements' you are referring to?—Supposing they undertake long term loaning.

Do you want them to restrict their facilities for internal trade in order to take up foreign exchange?—I mean they should undertake both; in fact that should be the main business of the banks; there should be no other entanglements.

4167. *Mr. Lamond*: On page 20 of your memorandum you say "The Indian Institute of Bankers is at present under the general body consisting mostly of representatives connected with the Imperial Bank." The Imperial Bank authorities do take a great interest in the Institute, but what is your authority for this statement?—I think that the people selected are more or less the nominees of the Imperial Bank. There is no competent man with wide practical experience included in the Bank's Council. My information is that the Institute was started more or less under the ægis of the Imperial Bank.

4168. So you are not quite sure yourself?—I am not quite sure.

4169. I therefore suggest that you should not make statements without being absolutely sure about them.—The present composition of the Indian Institute of Bankers might have been changed. But in the beginning before the whole scheme was thrashed out, there was the question of the representatives being selected by the Imperial Bank.

4170. Why should you say that the people already there are not the right kind of people? You admit that you have got no personal experience of the Institute yourself.—My suggestion is that people who have got real practical experience must be selected.

FOURTEENTH DAY.

Wednesday, the 10th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. D. P. KHAITAN.	Mr. W. LAMOND.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. G. K. DEVADHAR, C.I.E.
Sir HUGH COCKE, KT.	Choudhri MUKHTAR SINGH.
Dr. L. K. HYDER.	Mr. NALINI RANJAN SARKAR.
Mr. V. RAMDAS PANTULU.	Seth Haji ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Messrs. V. Venkateswara Sastrulu and Narasimha Rao, representatives of the **Andhra Chamber of Commerce,** were examined.

4171. *Chairman*: Do you represent the Andhra Chamber of Commerce?—Yes.

4172. When was this Chamber formed?—It was started in November 1928.

4173. Is its headquarters in Madras, and not in Andhradesa?—It is in Madras.

4134. I thought the Andhra Chamber of Commerce was in Andhradesa? —Madras is contiguous to Andhradesa.

4175. I find that many of your members are doing business not in Andhradesa but in Madras. The two Vice-Presidents are in Madras. There are some from Cocanada, Rajahmundry and Bezwada, but the largest number seem to be doing business in Madras itself?—They are members of the Committee of the Chamber.

4176. Can you tell me something about the membership of the Association? Where do the members do their business?—The number of members of the Association is now 82. They do their business in the Andhra districts, but some of them have their business at Madras.

4177. Am I correct in assuming that Cocanada is a port in Andhradesa? —Yes.

4178. You will probably admit that I and my colleagues have a distinct grievance against you. On the 2nd January 1930 we received a memorandum bearing the signature of Mr. V. Venkateswara Sastrulu which begins: "The Executive Committee of the Andhra Chamber of Commerce has deputed me to prepare this memorandum for the Banking Enquiry Committee and I have much pleasure in sending herewith my replies and suggestions to the questionnaire." Is that statement correct? —Yes.

4179. You now say "the written memorandum represents to some extent the personal views of one of us and so we have the honour to submit the following views of the Andhra Chamber of Commerce on the questionnaire issued by the Central Banking Enquiry Committee." When Mr. Venkateswara Sastrulu sent us his memorandum on the 2nd January, I take it that your Chamber had an opportunity of seeing what views he, on your behalf, had placed before my Committee. I understand that about the beginning of August our Secretary wrote to you and communicated to you the date of the oral examination. Even then you did not say if you wanted to replace your first memorandum. As it is, there is nothing in the first memorandum which finds a place in the second memorandum and it is probable that only when you saw the questions which I was going to put to you that aspect of the case struck you. It was late in the evening yesterday that the new memorandum was handed to me. I find that there is not a single line in the old memorandum which finds a place in the new one. Is that fair to us? As I have read the new memorandum, I shall be able to put some questions to you, but my colleagues have not seen it?—We went into the matter reported to us by Mr. Venkateswara Sastrulu after you asked us to give oral evidence before your Committee. We did not expect that we would be called upon to give evidence and therefore we entrusted to Mr. Sastrulu the task of answering your questionnaire with such help as he could get from the local merchants at Madras. Later on, we thought that unless we ourselves went into the matter it would not be fair to appear before you and waste your time as well as our time; so we called for a committee of the Chamber and we issued a sort of informal questionnaire to our members, submitting along with it Mr. Venkateswara Sastrulu's memorandum. Many of the members did not agree with the views of Mr. Venkateswara Sastrulu and said that it would be better if a separate memorandum was sent to you. Up till leaving for Poona we were still collecting information from our members and it was only after coming to Poona that we were able to collate the information and submit a revised memorandum. We offer our apology in not being able to send additional copies of the new memorandum.

4180. Am I correct in understanding that this new memorandum wholly replaces the old one, or is it in addition to the old one?—The new one is supplementary to the old one.

4181. Does not the new memorandum go against the views contained in the old one?—In respect of some matters, yes.

4182. What will the public think of the statement you have now made before us? They will think that at first you took the questionnaire of our Committee lightly and deputed one of your members to write the memorandum which was sent to us, and that it was not until you were asked to come up for oral examination that you really took the matter seriously. I leave it to the public to judge, when they see the printed volumes, about the efficiency of your Chamber.

4183. You say that in the case of goods that have actually arrived or goods manufactured, banks advance money by keeping them in their godowns but that it kills business. Could you explain a little more fully why business is killed by such advances?—We shall explain with regard to the local circumstances obtaining. Merchants used to import goods from England more or less directly and they used to take the goods on D. A terms from the Bank of Madras, sell them off and pay money into

the bank. Very few imports are now taking place on D. A. terms, and importing firms have been established in their place. If Indian merchants import goods through a foreign firm now, that firm will give goods on D. A. Banks which originally used to give the D. A. to Indian merchants are not now doing so.

4184. Are you giving your experience at Madras or at Cocanada?—I am giving the experience at Madras. There is very little export and import through Indian merchants in all our districts.

4185. Will not the Southern India Chamber of Commerce, who are coming before us and who have sent us a written memorandum be in a better position to give us the experience as regards Madras?—They may be able to do so. I am not disputing their authority.

4186. I do not yet understand how business is killed by such adavnces?—If you want a direct answer, I must say 'no', but circumstances have to be taken into consideration.

4187. What circumstances? You made a statement and all I want to know is how far that statement is correct. You begin by saying that that statement is not correct. As regards conditions prevailing in Madras, we shall have an opportunity of hearing it from other people. Your answer is that it does not kill the business?—Yes, it does not directly.

4188. In the statement you just made you said that up to a certain period banks used to give credit on D. A. Can you tell me which was the bank which used to give this assistance? I think you said the Madras Bank was giving the facility?—Other banks also.

4189. But I want to know whether it is your statement that the Madras Bank used to give that facility?—I do not know.

4190. Therefore you do not really possess the information. You definitely said that it was the Bank of Madras who gave the facility, then added that other banks also used to give it. I know that the Bank of Madras could not have given the facility. Therefore I was trying to check your statement. There is no use pursuing the matter. Further we are dealing in this question with Indian industries and you are all the time talking of financing foreign trade. In your new memorandum you say that "the written memorandum already submitted represents the personal views of one of us." If your Chamber do not subscribe to any particular view given in the memorandum, the simplest thing would be for you to say so, because that will avoid further examination.

4191. Do you accept the statement that Industrial Banks should have additional capital from private depositors also?—Yes.

4192. Then will you kindly tell the Committee whether it is your intention that these banks should receive only long term deposits from the public or could also receive short term deposits in addition, like other commercial banks?—Our idea is that many charitable institutions, public bodies and trusts may be able to subscribe to share capital or to debentures. Local boards and municipalities are allowed by Government to deposit with co-operative banks and some are able to deposit pretty good amounts of money for more than three years. If such facilities are given to industrial banks, they may be able to get additional funds.

4193. But who is going to give these facilities? If the public deposit money with them, nobody can object; but as another witness pointed out, nobody can force the hands of the public in the matter. My question had

no reference to trust funds, etc. I wanted to know whether the industrial bank should accept only long term deposits or should also accept short term deposits?—Only long term deposits.

4194. Do you accept the statement that Industrial banks should be worked on similar lines like Agricultural Banks?—That statement is not subscribed to by the Chamber.

4195. *Mr. Ramdas Pantulu*: By 'agricultural banks' do you refer to land mortgage banks?—I refer to agricultural societies.

4196. *Chairman*: Do you accept the statement that the help rendered by Industrial banks should reach the cultivators of industrial crops?—No.

4197. You refer to banks getting produce in their godowns and stipulating the rates from middlemen buyers or whole-sale exporters or foreign buyers. Does your Chamber accept that statement?—No.

4198. Does your Chamber subscribe to the statement that Exchange banks must accept the guarantee of Indian banks who have every opportunity of knowing the conditions of the business and the status of the trader?—Yes, it does.

4199. It has been complained by one prominent Indian banker that even Indian banks are at present unable to know the correct financial standing of traders on account of the fact that at present they do not prepare properly audited balance sheets. Would you kindly tell the Committee, from your experience of the members of your Chamber, whether Indian banks will be able to give such guarantee as proposed by you?—I think Indian banks would be, and merchants would certainly be prepared for the banks' scrutiny and investigation of their accounts.

4200. *Mr. Khaitan*: Are those members of your Chamber to whom you refer as being prepared to have their accounts examined by the banks or to give their balance sheets to the banks, engaged in trade, or are they indigenous bankers?—So far as the Andhra districts are concerned, no extensive trade is in the hands of Indians. It is purely a question of small traders doing business, perhaps second hand, in the sense that they have no direct relations with foreign countries or with very good Exchange banks. If these traders cannot get the necessary help from Indian banks, they have to go to indigenous bankers.

4201. It is the traders who will be prepared to show them the real state of affairs?—Yes.

4202. *Chairman*: Does your Chamber adhere to the statement that 'Indian Chambers of Commerce take up the work of exchanging the lists of buyers and sellers?'—No.

4203. Do you adhere to the statement that the present legal definition of 'bank' is enough?—No.

4204. Does your Chamber agree that the Trade Commissioner in London should be the authority to issue, renew or cancel licenses to foreign banks in India?—With the modification that the Government of India should issue the licenses on the advice of the Trade Commissioner.

4205. Do you consider that an authority like the Trade Commissioner who is outside India can discharge this function?—The Trade Commissioner only makes investigations whether the firms can be given licenses in India or not.

4206. Some of the Exchange banks come from Japan, some come from Holland, etc. How will the Trade Commissioner, who is in London, be in a position to advise the Government of India in regard to such non-British banks?—I only say that the Government of India ought to take the initiative in the matter.

4207. Therefore you think that the Government of India may seek such advice as they may want to?—Yes.

4208. You refer to a proposal about a Central Committee of Bankers. Does your Committee subscribe to this suggestion?—No, our Committee has suggested instead a Reserve Bank.

4209. You propose that the Trust Act should be amended so that trustees may invest their funds in banks. Does your Chamber adhere to the statement?—Yes.

4210. Is it your intention that such funds should be placed in deposit with banks or should be utilised for the purchase of bank shares?—Not for the purchase of bank shares at all; it is either for debentures or for deposits.

4211. Here you are referring to commercial banks. In the case of certain type of banks, the trustees may be allowed to put their money in them, *e g.*, the land mortgage bank, if Government guarantee the rate of interest and certain facilities.

4212. The land mortgage bank is not a commercial bank. If you had said that some banks, like the Industrial Bank or the Land Mortgage Bank, should be given this particular facility, I would not have put the question to you?—That is what I intended.

4213. *Chairman*: You say that Government may keep their deposits in all banks without confining themselves to the Imperial Bank. Does your Chamber adhere to this statement which you have made in the first memorandum?—Our Chamber's view is that where there are no branches of the Imperial Bank of India, the local banks may be given that privilege of having Government funds.

4214. Does your Chamber consider whether even that proposal will not affect, what I may call, the efficiency with regard to the mobility of Government balances?—The Co-operative movement has spread fairly well in our districts. We suggest that Government balances might be kept in these co-operative banks.

4215. Do you want to imply that Government balances could be kept with the co-operative banks or any other bank in places where there are no branches of the Imperial Bank?—On this matter our Chamber would favour the idea of keeping Government money in a bank which has got several branches or in the co-operative banks. This might be done if it is possible to do so without affecting the efficiency of the mobility of Government balances.

4216. *Chairman*: Now, we will examine you on your supplementary memorandum. You have referred to the Bezwada Weaving Mills, Ltd. Could you tell us a little more about that concern? Has it raised a proper amount of share capital?—It raised about Rs. 6 lakhs of capital. Originally the management thought that they could get on very well in weaving alone without having a separate section for spinning. Later on they found that they could make their concern really a success only if they introduced the spinning section also. When they approached the shareholders, the

latter were naturally reluctant to advance further capital. They grew all the more diffident when they found that there were some failures of industrial concerns like the Masulipatam Sugar factory which found it difficult to sell its bye-products like rum, etc.

4217. You have yourself said in your supplementary memorandum that recurring capital or block expenditure for industries should come from the share capital or debentures on their stock and plant. If this Company could not follow the wholesome view of your Chamber, how could anybdy have prevented its ceasing to be in existence?—Of course that is our ideal, but if an industrial concern finds it difficult to raise its supplementary capital by itself, then we suggest that the Industrial Bank, which we want to come into operation, should advance money on long term credit, say for 5 or 10 years during which period the concern could repay the loan and also better establish itself.

4218. *Mr. Sarkar*: May I put it to you that it is the intention of your Chamber to have recourse to an Industrial Bank for extension of business and thus for raising additional capital only in the case of longstanding industrial concerns and not for new ones?—That is our point. But the industrial bank when it finds that the nature of the business is quite sound but lacks only in enterprise, it might advance funds in such a case also.

4219. *Mr. Khaitan*: Is it your intention that the industrial bank should take up the debentures of the industrial concerns, there being at present no good market for selling these debentures?—They can do so.

4220. *Sir Hugh Cocke*: You make a distinction between the original block and subsequent block. You do not suggest that an Industrial bank should subscribe for the original block?—We refer only to subsequent extensions of business and not to original block. But as we have already pointed out, if the bank thinks that it will be a sound investment, it can advance initial capital as well.

4221. *Chairman*: I am trying to understand the position. Is it your view that the Bezwada Weaving Mills failed because for want of additional capital?—So far as the Bezwada Weaving Mills were concerned, we think that it was merely want of capital that was responsible for the failure of the concern. There were no other technical difficulties.

4222. We shall now turn to the Carnatic Paper Mills. Will you please tell me who the Mothey and Pyda people are?—They are practically private capitalists of Ellore and Cocanada.

4223. You are aware of the history of the Carnatic Paper Mills and that the Madras Government lost a large sum of money on that?—Yes.

4224. The Madras Committee did go into this question and they say that the Local Government renders assistance in various directions such as granting loans, guaranteeing cash credit with banks, taking up shares or debentures, guaranteeing a return on part of the capital. These are 4 of the main items with which we are now concerned. Though the Madras Government used previously to give loans up to 50 per cent of the assets, they have actually begun to increase the limit to cent per cent of the net assets or they are about to do so. That is the impression which I gather on reading the Madras Committee's Report. The Madras Committee say: "It will be seen that the Government's attempt to assist industries in this matter have met with small response and less success, but one cannot expect that the offer of loans for commercial concerns in a land developed commercially only to a very small extent and educated more on academic

lines than in industrial and commercial practice would at once produce an outburst of feverish activity". This is their conclusion. At the same time in fairness to them I must say that they have also recommended some form of industrial bank. From a reading of the position I find that the sole difficulty is not one of finance. Is that so?—We cannot say that it is the sole difficulty, but it is one of the great difficulties.

4225. You have said that at present much of the finance is got from the indigenous bankers at high rates of interest. You probably know the Committee's definition of the indigenous banker and that is, those people who receive deposits in addition to lending out. Will you please tell me who the indigenous bankers to whom you refer are?—The Multanis, the Nattukottai Chettiyars and the Marwaris.

4226. Have the Nattukottai Chettiyars got their agencies in your part of the country?—No. Only Marwaris do the money-lending business.

4227. Can you tell me what rates of interest they charge?—It ranges from 12 to 18 and sometimes even from 24 to 36 per cent per annum.

4228. What is the normal rate?—On an average it is about 12 to 15 per cent and more?—Yes.

4229. Then it must only be on bad security that they lend out at 24 per cent. and more?—Yes.

4230. *Mr. Devadhar*: Do you mean to say that anybody would lend out money without any security whatsoever simply for the mention of high rates of interest on paper? It is all speculation, taking a big risk. Is it often done?—It is sometimes undertaken.

4231. If a man promises 75 per cent interest, do you mean to say that moneylenders are willing to advance money without any consideration of the consequences or security? Has moneylending become so reckless?—We know of several instances in which Marwaris lend out money even without promissory notes on 50 and 60 per cent interest. No doubt when these transactions go to court, the latter does not allow these exorbitant rates but they simply cut them down. Sometimes these moneylenders advance Rs. 10 or Rs. 20 less and get a pro-note for Rs. 100, from their debtors. All sorts of practices are common.

4232. *Seth Haji Abdoola Haroon*: Are there any Multanis in your part of the country?—We have only Marwari bankers.

4233. *Mr. Ramdas Pantulu*: Do you know anything about the affairs of the Carnatic Paper Mills and why they failed?—Our Chamber's information is that the whole of its assets which were worth 12 lakhs, had to be sold out for 4 lakhs only.

4234. *Mr. Devadhar*: When this concern was started, were not all these facts taken into consideration? Is it your real complaint that they did not have adequate funds or was it the lack of adequate knowledge?—Both combined.

4235. *Mr. Ramdas Pantulu*: Do you know how the Sugar Factory at Masulipatam and the Jute Mills at Chitvalasa failed?—We have got only general information about them. The Sugar Factory failed because it could not make adequate arrangements to sell its bye-products. We do not know much about the other concern.

4236. *Mr. Khaitan*: You have quoted the instance of the Weaving Mills at Bezwada. In answer to Chairman's question you said that their failure

might have been due to lack of technical advice and to the fact that they did not start the Spinning Section which they were told would be a paying proposition. Do you know in what year the Mills were started?—We have no information.

4237. Are you not aware that it was thought by even great technical experts that weaving mills by themselves would be profitable to work in India?—We do not know. We have been informed by some of those connected with this particular concern that they were advised by technical experts that if they had started a spinning section, it would pay them better.

4238. Round about Bezwada much cotton is available both from Hyderabad and from Madras (Bellari, Nandyal, etc.), so that Bezwada is a place which is very well situated so far as raw cotton is concerned and would therefore be a good place for a spinning section to be attached to a cotton mill?—Quite so.

4239. Is the labour round about Bezwada costly?—It is fairly cheap, about 8 annas to a rupee per labourer per day.

4240. Then, is there any lack of technical advice in regard to cotton mills?—I do not think so.

4241. The promoters of this particular concern were advised—and in my opinion correctly advised—that if a spinning section could be attached, the mills could be made profitable. And as we have seen, technical advice, raw material, cheap labour, all these things were available. Therefore all that was needed was finance only?—Quite so.

4242. *Chairman*: Can you tell me whether this particular concern ever approached the Madras Government for financial assistance? You know the Madras Government have got a textile expert?—On this point of information we have nothing to say.

4243. *Mr. Khaitan*: Sir, I believe that however liberal the law may be, the practice of the Government in regard to cotton manufactures has been to restrict aid to hand-weaving and hand-spinning industries.

4244. *Sir Hugh Cocke*: I want to ask how long this particular mill had traded with a capital of 6 lakhs before it thought that it should extend?—For about five or six years.

4245. Did it make profit or loss during that period?—It suffered losses.

4246. At the time it wanted to extend, how much had it lost?—Only about a lakh or 50 thousand.

4247. *Chairman*: You have said "The foreign export and import business is mainly in the hands of foreign firms." When you talk of the foreign export and import business, are you referring to the position in the Andhradesa alone or the whole of India?—Mostly we are referring to Andhradesa, but our impression is that it is the same in certain other places such as Calcutta. So far as Andhra Districts are concerned, the import and export business is mainly in the hands of foreign firms.

4248. In answer to Question 3 you say, "The rates of interest on the loans raised on hundis, promissory notes or bonds, varies from 12 to 18 per cent and in some cases, it exceeds 24 per cent even, etc." When I read all this, I thought you were referring to Andhradesa only?—Yes.

4249. Then your complaint is really against the Marwari or the indigenous money-lenders?—We have had no dealings with Multanis. So far as our Chamber is concerned, we have experience of Marwaris only.

4250. Do Nattukkotai Chettiyars at all lend money for the purpose of financing industries?—There are many small rice mills and small ginning mills which are financed by these Nattukkotai Chettiyars.

4251. Do these Chettiyars receive facilities from the Imperial Bank and other joint stock banks to which you refer?—That is our impression.

4252. *Mr. Devadhar*: Why do the rates of interest charged by these indigenous bankers and other banks vary so widely?—These indigenous bankers borrow from banks and before they re-lend that money to small traders and others, they must keep some margin of profit for themselves. Hence the difference in the rates of interest.

4253. *Chairman*: You have already admitted that Chettiyars do not exist in Andhradesa; so that when you are talking about them, you are merely referring to conditions in Madras. Now in Madras, as you know, there is no dearth of banking facilities; is there?

4254. *Mr. Rushforth*: Are any of these Marwari indigenous bankers members of your Chamber?—No.

4255. *Chairman*: Do they not carry on business in Andhradesa?—They do banking business and not much of trading.

4256. *Mr. Lamond*: But you have Multanis in Vizianagram?—Still the Marwaris are the predominating class; though from our point of view they are both foreign to Andhradesa.

4257. *Chairman*: From your answer to Question 4, I gather that you do not favour an all-India Industrial Bank; you prefer an industrial bank in each province?—Yes, for the present.

4258. Therefore to that extent you disagree with other people from Andhradesa (whom we have heard before) who are totally opposed to the idea of provincial banks.

4259. Have you at all thought about the constitution of this bank? Is it to have a share capital and how is it to be started?—We have felt the necessity for such a bank, but we have not thought about the details.

4260. In your new memorandum you say that the purpose of an industrial bank is only to help the industry whenever an industry is in urgent want of funds to enlarge its scope of business. That does not mean helping the concern at the time of its establishment?—No.

4261. Do you want to modify that statement?—But I have said that in special circumstances an industrial bank may, as a special case, finance an industry from the beginning.

4262. How can it do so? It must lend on some security. If the industrial concern has not come into existence, what security can the bank get?—If six lakhs of capital is floated for a concern and it can do business and if four lakhs are added and it can do better business, and if the four lakhs cannot be got from shares, then the industrial bank may advance that sum, even though the concern may be in its initial stage.

4263. Is it your intention that the Industrial Bank should come in and on the mortgage of the concern's plant and machinery which is valued at six lakhs lend another four lakhs?—Yes.

4264. *Mr. Khaitan*: I hope I am correct in saying that your Chamber has not considered whether the industrial bank should be an all-India bank

or a provincial bank?—Taking local circumstances into consideration, a provincial bank can be more easily controlled than an all-India bank.

4265. What will be the difference between dealing with a branch in the province of an all-India bank and the head office of a provincial bank?—There is bound to be great difficulty, *e.g.*, an all-India bank may think that the financing of the Bombay or Ahmedabad industry may be more usefully concentrated than in the province concerned.

4266. Let us take the case of the Imperial Bank. This Bank is an all-India institution and has branches at several places throughout India. Is the Imperial Bank showing any partiality to any particular province or is it dealing equitably with all provinces?—I am not able to answer the question.

4267. Therefore you are not able to say whether an all-India institution with proper arrangements to deal with the provinces equitably will not serve your purpose?—If proper and equitable arrangements are made, it may serve the purpose, but it is a big 'if'.

4268. *Mr. Ramdas Pantulu*: Another gentleman from Andhra has given us his reasons in favour of an all-India industrial bank. Suppose there is a provincial bank which is financing a particular industry and there is a depression in that industry, the provincial bank is likely to lose heavily in the value of its shares and debentures. Suppose again there is a bank in Bombay which is financing the cotton industry; if there is a depression in the cotton industry, it is true that the industrial bank at Bombay would be hit to a great extent, but at other places like Delhi or Ahmedabad it may be making profits. So if it were an all-India bank, though there may be depression in one province, the bank will on the whole maintain its position by the profits it may make with regard to the same industry in other provinces. Therefore it is safer to have an all-India bank with branches in the provinces, so that it may be better able to stand the stress of industrial depression. How does this proposal strike you?—You have to distribute your patronage among the several industries of the country, *e.g.*, jute, cotton, leather, etc., so that the depression in one industry may not altogether cripple the finance of the bank.

4269. You cannot have jute in Bombay and you have very little of cotton in Calcutta. Therefore a provincial bank will not satisfy your conditions; it is only an Industrial bank that can finance the cotton industry in Bombay, the jute industry in Calcutta, the leather industry in Madras and so on that can distribute its patronage among several industries?—With regard to the question of putting the money into several industries instead of one, our Chamber is of opinion that same safeguards should be provided in the case of the provincial bank. As regards the question whether an all-India industrial bank cannot help the industries in Andhradesa, if it can bestow the same attention to all the provinces, we would certainly prefer it.

4270. So if the constitution of the all-India industrial bank is such as to ensure its safeguarding the industries in all provinces and especially those which are most backward, you will be in favour of an all-India bank?—Yes, because it can command greater finance than perhaps a provincial bank.

4271. *Mr. Devadhar*: Would you like the industrial bank to undertake organisation of industrial enterprises or would you only like it to finance industries?—It should do more of financing, giving technical advice where it can.

4272. *Dr. Hyder*: I shall read to you a passage about the Imperial Bank from the report of the Bihar and Orissa Provincial Banking Enquiry Committee:

> "On account of their official connection the branches have been able to attract 185 lakhs of private deposits free or at low rates of interest. Either owing to the conservative policy pursued by agents or the absence of suitable openings for investment or the restrictions imposed by the Imperial Bank of India Act, the branches do not put to much local use the funds so collected, with the result that they are exported to the commercial centres outside the province."

Could you tell me whether your Chamber has given consideration to the point that an all-India industrial bank might collect funds from Andhradesa and utilise them for some other place?—This is why we, in the first instance, preferred a provincial bank. But if the all-India industrial bank can act equitably, as one of the members suggested, then we said we had no objection to such a bank.

4273. Can a provincial bank, in your opinion, take proper care, by itself, of provincial needs and aspirations?—I think so, though perhaps it may lack the advantage of mobilising the finances which an all-India industrial bank may have.

4274. You have to balance the one against the other.—But it will only for small operations.

4275. *Chairman*: If there was an all India industrial bank which was dealing with, say, cotton, jute and other minor industries in various provinces and if there was a depression in cotton which perhaps very largely affected the position of the industry in Bombay, but did not affect to that extent the position of the cotton industry, say, in Delhi or Madras, that fact would help an all-India bank as compared to a provincial bank. But in a case of that sort, will not the fact that the cotton industry in Bombay is predominant, by itself, pull down the shares of the all-India bank and affect its financial position? On the other hand, if there was a provincial bank at Madras which was not much concerned with cotton and if there was a heavy depression in cotton, its financial position may not be embarrassed by the depression in cotton itself?—The Bombay mill industry is suffering on account of a variety of reasons. The present depression may not continue for long and it may be an asset instead of a liability. When we are talking of an industrial bank, we think of a bank of an all-India nature which will be able to look to all industries. If Bombay suffers to-day, Calcutta may suffer to-morrow and Madras the third day. So an all-India bank must be able to tide over good as well as bad times and give as much relief as possible to the people. Our difficulty as regards an all-India bank is merely that it may not be able to work out equitably and distribute help to all provinces in a fair manner. In all other respects, an all-India industrial bank may have a greater standing and greater stability to finance industries.

4276. Let us suppose that, to begin with, an all India industrial bank is faced with depression in cotton which largely affects Bombay. This depression will only affect the shares and debentures issued by the all-India bank, but as Bombay predominates in the cotton industry, the bank may not be able to carry on any business, even if it wanted to do so, in the other provinces. After two or three years, there may be depression in jute; here again if it is an all-India bank, its financial position will be affected, and if it has got to extend its operations to such a large extent, are there not chances of its utility to the development of new industries being impaired?—You are thinking of continuous depression, whereas it is possible that, when there is depression in Bombay, the jute industry in Calcutta may be thriving.

4277. I am quite prepared to admit that, but experience has shown that the depression, once it starts, affects all the major industries, though it may not affect smaller industries like rice mills, which produce stuff for consumption in the country.

Mr. Sarkar: The depression in the cotton industry and in the jute industry is simultaneous.

4278. *Chairman*: But I was taking a slightly better view, *viz.*, that there may be depression in one of these big industries in one year; when it is tided over, there may be depression in another big industry and so on, and the industrial bank may have to go on facing a series of years of depression and if that happened, its utility will suffer?—I think that the establishment of an all-India industrial bank, with proper safeguards for the development of provinces, may be of some use to India, and the Committee may work ahead on these lines.

4279. Are you a student of economics?—I have studied some economics.

4280. You have then heard of what economists call 'cycles of depression.' These periods of depression may follow regularly, you work with cotton, then jute then with something else, but the depression may go on continuously for a series of years?—If a storm is to happen, we need not think of it at present. If one thing is bad, another will be good and we will get along.

4281. You say, with regard to financing of foreign trade, that your Chamber is of opinion that the Committee should apply its attention to formulate definite proposals in its report to encourage the Indian merchants to have the country's export and import business in their hands. If I have understood your answer correctly, you mean that the facilities are there, but the difficulty, according to you is that the Indian merchants do not get the facilities to the same extent as the European business firms get?—That is my point.

4282. I quite see your point which is that under present conditions, though there are facilities for the trade itself, the Indian merchant suffers a disadvantage as compared to the English merchant. In your second part of the answer you refer to rich foreign firms being backed up by Exchange banks in India. Is it your submission that, other factors being the same, Exchange banks give a preference to the foreign firms as against the Indian firms?—That is our impression.

4283. You have no definite remedies to suggest, but leave it to the Committee to work them out?—Yes.

4284. *Mr. Ramdas Pantulu*: What are the agencies in Andhradesa for the collection of produce in the villages? Do foreign houses advance money to the cultivator and take forward contracts and collect the produce for exports?—They sometimes do.

4285. Is the number of Indian middlemen who used to do this business increasing or decreasing?—The number is decreasing with the extension of the operations of these foreign exporting houses to the interior of the villages.

4286. Do you think that the facilities which these foreign houses have and the fact that they are able to offer better and competing prices than Indian middlemen benefit the agriculturist in any way?—The foreign firms are not helpful to the agriculturist. I can give you an instance. A foreign factory was started at Chirala in the Guntur district which offered to take all the produce of the farmers if they grew a particular brand of tobacco: it was Virginian tobacco. The farmers in the district took to this kind of tobacco as it was more paying. Once they took to it, the firm is not now paying even the ordinary price which they expected for the indigenous tobacco. They have lost the market for the indigenous tobacco and they are not able to sell the foreign tobacco except at the price offered by the factory.

4287. *Mr. Khaitan*: Do you mean that the factory has now reduced the price of the tobacco and that the agriculturists are suffering?—Yes.

4288. *Mr. Ramdas Pantulu*: So the foreign exporting and importing houses not only operate to the prejudice of the Indian trader and merchant, but also to the prejudice of the agriculturists?—Quite right.

4289. *Mr. Devadhar*: You said that some foreign houses were doing the work of collecting the produce which was not to the benefit of the agriculturist, and that they have replaced the middlemen. Are the middlemen still further replaced by co-operative societies?—They are not of sufficient importance, there are only 63 in our province.

4290. Do you think there is a good future for the development of that type of co-operative societies?—Very much; otherwise, we can never replace the foreign firms.

4291. You want to replace the foreign firms and also the middlemen?—Yes.

4292. Do you think that the middlemen can be effectively driven out or replaced by a co-operative institution of the purchase and sale type?—As far as sale is concerned, co-operative institutions have not been able to do much.

4293. But a co-operative agency will be of greater advantage to the farmer.—Certainly.

4294. In regard to these co-operative sale societies, would you like in the earlier stages that some expert should be put in charge of these concerns to safeguard proper supervision and management?—That should be done, but unfortunately we have not got trained men to do this at present.

4255. Do you think Government will not be able to provide such experienced men?—What happens at present is this. An inexperienced I. C. S. officer who does not know much about the co-operative movement

is placed in charge as the Registrar of Co-operative Societies and such being the case we cannot expect anything good.

4296. Each district has got about a dozen co-operative inspectors. Do you not think that one of them could be deputed for this work?—Co-operative sale societies are really business propositions and we do not think that the present departmental people will prove themselves to be good, unless they have had special training in the methods of management and control of the sale societies.

4297. We are here now discussing only the principle. If you get a sufficient number of co-operative inspectors trained in this line with some subvention from Government do you not think it would be advantageous?—Certainly it will be very advantageous if trained men are put in charge of these sale societies.

4298. *Chairman*: I want to know a little more about the co-operative sale business. I take it that at the present moment the movement does not suffer from want of finance, but it only lacks in men with technical knowledge. Is that not so?—Yes.

4299. That coincides with what the Madras Committee have said in paragraph 207 of their Report, "The difficulty of finding persons to carry on the business of co-operative sale societies must be mitigated by introducing closer study of the marketing of agricultural produce in the six co-operative training institutes in the mofussil and in the Central School in Madras". Do you agree with this?—We quite agree that the training ought to be given, but we consider that the present institutes are not fully equipped to impart such training.

4300. *Seth Haji Abdoola Haroon*: You said a little while ago that foreign firms are advancing money to agriculturists who produce tobacco and on this account the agriculturists are suffering?—Yes.

4301. Would you please explain the position a little more clearly how the agriculturists are suffering?—The point is that the European firm has a monopoly in the business. They make some advances to the producers and ask them to grow a particular variety of tobacco with the result that the growers find it difficult to sell it to others.

4302. *Chairman*: But are not the rates fixed at the time when the advances are made?—No, in the contract no mention of the price is made. The company invariably quotes its own price when the crop is ready to be sold.

4303. *Mr. Lamond*: Is this practice confined to tabacco only?—Yes, mostly.

4304. My experience of the ground-nut trade of Vizianagram is that the dealer collects all his crop and the exporter buys it at the last stage?—That is so. The foreign export firms now-a-days even send out their sub-agents to the interior and they purchase the crops from the producer direct without the aid of the middlemen. This works as a great hardship on the poor middleman who makes his living in this way.

4305. *Dr. Hyder*: Are these sub-agents whom you refer to Indians or foreigners?—They are mostly Indians.

4306. Then is it your complaint that one Indian is replaced by another?—There is difference between one man dealing with 10,000 tons of decorticated ground-nuts and 200 men doing the same business. In the former

case only one man benefits while in the latter 200 men benefit by doing the business. With the intervention of the former the latter set of 200 people naturally lose their business.

4307. Do you not think that the cultivator stands to benefit if he sold his produce direct to the sub-agent rather than through the so-called beparis or the middle-men? After all it is only a replacement of the existing link to the advantage of the cultivator?—As I have already said, the intervention of the sub-agent makes the living of the small intermediaries suffer. As for the cultivator himself he does not stand to benefit as the sub-agent does not pay him higher price than the middlemen do.

4308. What I fail to understand is how the sub-agent comes to replace the intermediaries. There are only two possible alternatives, either it must be magic or the sub-agent must offer higher price than these middle-men to attract the cultivator. What is your suggestion?—The magic is that the firm through its sub-agent is able to finance the cultivator on easier terms and so he has a hold on the produce.

4309. You admit that the Agent is able to advance money at cheaper rate?—The point is that the cultivator does not really derive advantage by the fact that he gets finance at cheaper rates from the agent, but the fact is that the firm so adjusts its price at the time of harvest that it is impossible for the cultivator to derive any benefit. The fact is that these cultivators are very indigent people and they cannot afford to keep their crops waiting for sale till better terms are offered, but the beparis can afford to wait.

4310. But wherein does the monopoly come in?—The idea is that only a few European houses control the business and they through their sub-agents direct the cultivators to sell the crops direct to them and not through the beparis.

4311. Is it your view that these rates which prevail in foreign market are kept a secret from the cultivators?—Some quotation is given but after all the foreign firms in this country are the masters of the situation. They absolutely control the prices.

4312. Will you please give the names of the foreign firms doing this business in Madras that have come to your knowledge?—Messrs. Gordon and Woodroffe, Ralli Brothers, and Volkart Brothers and there are others as well.

4313. *Mr. Sarkar*: You said that these European firms charge a lower rate of interest on their advances to the cultivators of groundnuts?—Yes, but they more than make it up by their forward contracts. The agriculturists are after all getting no benefit.

4314. *Dr. Hyder*: Do you know that the beparis also make advances sometimes to the cultivators and also force the latter to sell their products at very unfavourable rates to the cultivator?—It might be, but the cultivator has to liquidate his debts and this he can do only by selling his crops to the bepari.

4315. Compare now the poor cultivator placed face to face with the bepari and the sub-agent and then whom do you think it is better for him to deal with?—But after all the foreign firm's quotation is fixed. They are the real dictators of prices. But if the produce is in the hands of the beparis and if the sub-agent refused to quote a higher price, the former can combine and say that they will not sell unless they are offered higher prices.

4316. *Sir Hugh Cocke*: With the advent of the sub-agent of the foreign firm, the real point is that the beparis are knocked out. Is that so?—It affects the beparis and the cultivator is also affected as already explained by me.

4317. What is the remedy for this state of affairs then according to you?—Co-operation is the only remedy.

4318. *Chairman*: Have you read the Madras Committee's Report on the same subject?—Yes.

4319. You know they say that the proper remedy is to provide for better marketing arrangements and not merely the introduction of co-operative sale societies. They have suggested that some arrangement should be arrived at by which the raiyat should be placed in better touch with the world prices so that he can refuse to part with his crop at any price, which the beparis and the sub-agents are now able to command and force the cultivator to accept the same?—That is no doubt a good suggestion.

4320. You admit that the immediate difficulty which stands in the way of the development of the co-operative movement in regard to the development of these sale societies is really the dearth of trained men and not dearth of finance?—Yes.

4321. The problem is therefore not a banking one, but how to secure properly trained men for this work. And therefore the right solution is in what we may generally term development of education using the term in a broad sense. Unfortunately it is not for the Banking Committee to lay down how this education is to be imparted precisely?—In our opinion, so far as training in banking is concerned, there are only two ways: one is the evolutionary method of educating the people step by step and the other is the revolutionary method to be enforced by the Government of the country.

4322. The whole trouble with the Indian agriculturist is that he cannot establish his rights in the matter. Whether it is the middleman or the indigenous banker who takes his pound of flesh out of the man or whether it is the agent of the foreign firm, so far as the poor agriculturist is concerned, he is only where he has been.

4323. *Mr. Devadhar*: If you think it is merely a problem of training, would it be difficult to suggest that some intelligent people should be sent out to other countries like America and study the methods of marketing etc?—The difficulty is not lack of men. In fact committees after committees have recommended this very course. The Townsend Committee have recommended that intelligent young men should be sent abroad to study the problem. The Royal Commission on Agriculture have made similar suggestions. But the idea of the public is that committees' investigations and recommendations are not faithfully carried out by Government; only such of the recommendations as it suits the Government to adopt are followed; the rest are all shelved.

4324. Why not approach Government with a definite proposition and ask them to award scholarships to really capable men?

4325. *Chairman*: Has such an appeal ever been made by the leaders of the co-operative movement, say, in your part of the country?—They did pass resolutions.

Resolutions are purely expressions of good-will or good-faith. My point is—and Mr. Devadhar's point is I believe the same—has any concrete

action been taken so far by the leaders of the co-operative movement to approach Government with say two or three names of men who will be able to do good work if trained in other countries such as Canada?

Mr. Ramdas Pantulu: There is no want of sympathy with these proposals on the part of the Madras Government. The difficulty is merely one of finance.

4326. *Chairman*: To pursue Mr. Devadhar's modest suggestion, how much would it cost to send three boys outside the country for training? Surely not a substantial amount; not more than Rs. 10,000 a year at the most. Therefore, Mr. Ramdas, when you say that the local Government are unable to find money necessary for the training of just three boys, I must admit I am far from convinced.

Mr. Ramdas Pantulu: This is what I learnt in conversation with the Development Minister of the Madras Government.

Mr. Devadhar: Surely Mr. Ramdas's bank could easily find money enough for that purpose.

Mr. Khaitan: Sir, may I give you an analogous case in Bengal. The Minister in charge of Education once said he could not find even three thousand rupees for the education of the depressed class boys.

Chairman: Bengal's case has been different. But I know Madras finances are not in a desperate position.

4327. *Mr. Lamond*: About this question of the exporter advancing money to the cultivator, you said that the exporter advanced money to the cultivator in Madras. This is what the Madras Committee have said in this connection:—"They buy for cash locally and do not ordinarily give advances for growing the groundnut".—That statement may not be correct.

4328. Then, this is what the Bombay Enquiry Committee was told in the course of evidence by the representative of Ralli Brothers.—"*Question.* —Are there no agents of your firm who go into the districts and advance money to the cultivators? *Answer.* No"?—I do not know about Bombay conditions.

4329. But Madras is in the Bombay Circle because the Ralli Brothers have their head office in Bombay?—I know from my experience in our districts, for instance in the case of tobacco.

4330. *Mr. Lamond*: What about ground-nuts? Perhaps you have no personal experience of that?—No.

4331. *Chairman*: In the Bombay Committee's volume of Evidence (Vol. II) on page 152, the following questions and answers occur:—
The first question is, "Are there no agents of your firm who go into the districts and advance money to the cultivators? *Answer.*—No." Then further, "Do you buy only in the markets?—Yes. We buy from the middlemen. In some markets it is compulsory; where it is not we buy direct from the ryot". This is the evidence of the Ralli Brothers' representative. Now Mr. Lamond's point is that the practice in Madras, which is under the Bombay Circle, would be the same.

4332. Now, you seem to indicate in your supplementary memorandum that foreign firms can obtain money from banks for the purpose of buying crops. Is that so?—That is our impression; the foreign firms are able to get cash from the Imperial and other banks perhaps on their overdraft accounts.

4333. Has not an Indian firm of sufficient standing the same facilities available to it?—They are not able to get the accommodation which banks can easily give them.

4334. Therefore it is a question of the standing of the particular businessman and not a question of his nationality or racial discrimination?—The foreign merchant represents the well-financed giant while the Indian businessman may be likened to a dwarf, and if banks take a more sympathetic view and help the businessman a little, that would improve conditions considerably.

4335. Whatever the bank, unless it is certain of the security against which it can make an advance, how can it possibly accommodate any merchant, whether he is a foreign merchant or an Indian merchant or whether he is a big merchant or a small merchant. The bank must be careful about the security against which it is asked to advance money?—We complain that consistent with the soundness of the security offered, they can lend money; but very often they take shelter behind the plea that the firm is not of a sufficient standing.

4336. Are you talking about Madras or Cocanada?—We have been referring to the difficulties of certain merchants in Cocanada.

4337. Is it your point that big Indians of sufficient standing do not get the same facilities from the Imperial and other joint stock banks as European merchants?—That is our impression. As a matter of fact, it is a very delicate question. On the one hand we hear the Imperial Bank saying that they do not make any distinction; on the other hand our members complain that they are suffering. Therefore impression alone can be given in this respect. It is difficult to say whether the banks have made any racial distinctions in the matter of accommodation to firms. But the general impression is that Indians are not able to get the financial help which the soundness of the security they offer entitles them to expect.

4338. So this is merely your impression. You cannot give the Committee actual instances.—No.

4339. Your point regarding the railway terminal and the shipping documents is again based on mere impression or actual facts?—It is an impression.

4340. You would not be able to give us concrete cases even in camera?—No. The grievance is genuine but we are not in a position to state concrete instances.

4341. Even as regards lack of facilities to Indians, you are not in a position, even in camera, to produce facts or figures before us?—There is an article written but never published, which shows that during the regime of a particular Secretary of the Imperial Bank at Madras, several firms have come to ruin.

4342. Have you got the article with you?—(A written stantement was handed in to the Chairman).

4343. This article seems to have been written by a share-holder of the Imperial Bank itself and does not seem to relate to the matter just now before the Committee; this does not refer to lack of facilities. There is first the prosecution of . . . . . Bachcha Saheb, a rich and respected client of the Imperial Bank. I do not know what the prosecution was on account of. Mr. Lamond, do you know anything about it? *(Mr. Lamond)* Yes, it occurred five or six years ago.

4344. On what charge was the gentleman prosecuted? (*Mr. Lamond*) There was a big fraud in the accounts of the bank.

4345. *Chairman*: The next case refers to the treatment accorded to Mr. H. M. Ebrahim Sait, ex-Director of the Imperial Bank and one of the merchant princes of the Presidency. It is said that as a result of the bank's insistence that he should pay back all at once the advances made to him by the bank his mills passed into the hands of Europeans.

Mr. Lamond: It is all a case of trade depression.

4346. *Chairman*: When did this take place?

Mr. Lamond: About 1924.

4347. *Mr. Ramdas Pantulu*: The point was that the Imperial Bank opposed the grant of more than 7 days' time for payment when proceedings were launched for liquidation.

Mr. Lamond: He was given a longer time.

Mr. Ramdas Pantulu: Some European firm in Calcutta purchased the whole concern.

4348. *Mr. Manu Subedar*: Is it your submission that the pressure by the bank was deliberate in order to ruin an Indian firm and to have this property passed into European hands? If that is so, we shall certainly have to get all the details and get them examined?—We do not know the facts; the general impression of our members is that they are not getting even the consideration of time from the banks.

4349. *Chairman*: Am I correct in assuming that even in the case of Indian firms your statement is based on impression and not on actual facts?—What we have stated was represented to our Chamber; further than that, we cannot say.

4350. Is Mr. Ebrahim Sait a member of your Chamber?—The writer of the complaint is a member.

4351. Therefore in this case also it is not from personal experience that you speak. It is from a paper which has come before your Chamber and not placed before it by the personal sufferer, but by somebody else?—Yes.

4352. *Mr. Manu Subedar*: You say that it is the impression of your members that the English banks (whether it is the Imperial Bank or the Exchange bank makes no difference to you), if they can avoid helping an Indian in time, do avoid it?—That is our impression.

4353. I would like to ask you whether you think that this impression is a sound one or whether you think it is mere prejudice?—It is no prejudice at all, so far as I can say.

4354. Is the impression a very deep one or just a prejudice?—It is a deep impression.

4355. Could it be based on some facts known to some of your members?—Yes.

4356. Is it a new impression formed recently or is it an old one?—For the last ten years one concern after another in Andhradesa has come to grief; that is why they are feeling it.

4357. During the last ten years, particularly after 1922, there has been a general falling off in industry and trade in this country and everybody has suffered, including banks, who have taken stricter action. The banks

have naturally withdrawn their support on account of trade depression, in which case it would not be a discrimination against Indians. We have to determine whether the action of the banks was a natural and proper action as a banking institution or whether it was due to lack of sympathy with India's industrial aspirations and with the deliberate desire to assist the foreigner and put down the Indian?—It may be a coincidence, but the impression left on our minds is that if the banks had been generous, the Indian firms would have got over the depression and thrived.

4358. The impression of your Chamber is that English banks, including the Imperial Bank, are not helping Indians and if they had helped them properly, the effects of the depression would not have been felt so much as they have been felt?—The banks do help sometimes, but by sudden recalling of advances, etc., at times of depression they are not sympathetic.

4359. You suggest that the English banks should be more considerate and give a little time to adjust affairs instead of making sudden recalls?—That is our general idea.

4360. *Mr. Khaitan*: Indians are experiencing these difficulties and you do not care whether they are due to racial discrimination or not. What you want is that the money market should be so organised that there should be some institutions which would deal sympathetically with Indians and give them facilities with due regard to the interests of the bank?—Absolutely so.

4361. *Chairman*: I asked you to give us concrete instances, so that we could examine them and judge for ourselves whether in each of these cases there was a want of sympathy or whether it was the management of the bank, with due prudence and due regard to the interests of the shareholders, that influenced the bank's action. You refer to some more cases and I should like to know whether they relate to members of your Chamber. Are Messrs. Khusaldoss and Sons members of your Chamber?—Yes.

4362. Can you tell us what was the trouble with them?—Overdrafts.

4363. Which is the bank involved in this case?—The Imperial Bank.

4364. That is the Imperial Bank called in overdrafts at a stage when it was inconvenient for the firm to pay up. Can you give us some more details of the case? When did this happen?—We cannot say.

4365. If you can send us full details of the case, we shall be glad to pursue the matter to the fullest extent?—We shall send details.

4366. Are the Koilpatti mills members of your Chamber?—No.

4367. Is the Indian Match Factory a member of your Chamber?—No.

4368. Therefore the only concrete case about which you can send us details is about Khusaldoss and Sons and we shall be very glad if you can send us full details about it. You refer to foreign firms having the advantage of conducting most of their transactions in sterling value and setting off the values of exports against imports, whereas the Indian merchant has the double disadvantage of losing something both in exports and imports by way of commission in exchange. Can you tell us precisely what you are referring to?—Take the case of a firm like the Ralli Brothers, who are both exporters and importers. If they export goods, they get their money in sterling which will be set off against the cost of the imports. An Indian merchant has not got such a facility. When he imports, he has to pay money and he loses or gains according to the rate of exchange.

4369. I understand from Mr. Buckley that Ralli Brothers is an exception and that other European firms cannot follow the same arrangement.

Mr. Buckley: I am speaking from my experience as an exchange bank manager when I say that in Calcutta most of the very large European firms who do export and import business not only sell their exchange, but also buy their exchange. Each department seems to me to work separately.

4370. *Chairman*: If that statement is correct, except in the case of Ralli Brothers, the advantage you refer to does not exist. Is there anything in the present arrangements which stands in the way of a big Indian firm trying the same arrangement. Surely there are Indian firms which do export and import business and they can open a sterling credit in London and adjust their transactions?—If they do so, they will gain.

4371. Therefore your difficulty really applies to the case of the small merchant?—Yes.

4372. *Seth Haji Abdoola Haroon*: Can you suggest a way out of the present position in which the small Indian merchant who exports from the country or imports into it is placed, according to your views?—Indian firms must be able to build up a good connection in London to do these things.

4373. *Chairman*: It rests with the Indian business firms to do it?—Of course, as it is.

4374. *Mr. Manu Subedar*: Is it due to lack of enterprise that the Indian merchant is not able to get a benefit of the kind which you suggest or is it due to lack of facilities?—It is due to both. Our difficulty is this: Both the export and import trade is well organised by the importing firms and Exchange banks and they are able to do the business well and there is really what is known as organised market. So far as Indian trade is concerned, it is unorganised and it is going on not in a methodical way.

4375. By 'unorganised' you mean that there are not sufficient proper links, one with the other, that can help and that the whole chain is not complete?—Yes.

4376. Even if an Indian in the interior was enterprising enough to take his goods to Madras, he stops there and has no further connection?—Yes, so if an Indian wants to break this link, he finds it very difficult to do so.

4377. *Chairman*: Suppose there were no foreign Exchange banks and all were Indian Exchange banks, even then the disadvantage of paying for the exchange facility would not disappear?—The exchange depends also upon the ratio.

4378. Whatever the ratio may be, the exchange business will be there and you cannot avoid it. As it is, the only solution for this is what you yourselves suggested, namely, if it were possible for Indian business firms to follow the footsteps of Ralli Brothers and adjust the value of their exports against the value of their imports which would mean no transfer of funds between, say, London and India, then what you desire to be achieved will be achieved. Otherwise, facilities may be created and Indian Exchange banks may come in, but still your difficulty will remain?—Yes.

4379. *Mr. Manu Subedar*: You mentioned that there is a ring between the foreign importer, the foreign exporter and the Exchange banks, in which even if an Indian had the enterprise and finance, he would find difficult to get in. I am anxious to understand the difficulties of getting in. Are any deliberate difficulties created in the way of an Indian merchant?—Recently Messrs. C. K. Narayana Ayyar and Sons, exporting merchants in

groundnut, who were competing with Ralli Brothers, had to be wound up, their specific complaint being that they were not able to get continuous financial accommodation from Exchange banks when their stocks were unsold.

4380. *Mr. Buckley*: I shall get full details about the reasons for the failure of this firm in Madras.

4381. *Chairman*: You say "Our Chamber is of opinion that unless a gold standard is established in India, the difficulties and disadvantages in trade are bound to continue." Will you please elucidate that statement? This Committee is not concerned with the currency policy of the Government of India. Assuming that there was a gold standard established in India, is it your idea that as soon as you exported goods you would get gold from England and when you imported, you would send back the gold?—Government is now forced to fix up a ratio, the rupee being worth so much gold. This is an arbitrary fixing, but if a gold standard is actually established, the ratio will depend upon the monetary market.

4382. That is an assumption. I am only trying to find out this: assuming that a gold standard was established and it was possible for you to get gold in exchange for currency notes, how would this particular difficulty be solved?—I only mentioned it as a sort of general argument.

4383. You were complaining of the difficulties to which Indian merchants at the present day are put to owing to their having to finance the foreign trade of India in a particular manner and in this connection you say: "So, our Chamber is of opinion that unless.....to continue". If you admit that this has no connection with the previous sentence, the whole of your paragraph will have to be re-written. I have nothing more to say?—No answer.

4384. You say that in respect of the practice of banks in releasing goods on trust receipts, some of your members complain that they are not getting the same facilities as the foreign firms or merchants. Could you kindly give us a specific case?—We only ascertained the actual complaints but have not further pursued the matter, thinking that we have only to give our general impression.

4385. Other witnesses might say that your statement was wrong. How are we going to sit in judgment unless you give us specific cases with full details?—We shall send you details of a specific case.

4386. *Mr. Khaitan*: You say that your Chamber favours the idea of audit and examination of banks' accounts by examiners selected by the Indian Institute of Bankers. Would you not prefer the examiners to be selected by the Reserve Bank if and when it comes into existence?—Yes, we would prefer it when the bank comes into existence. But at present the Indian Institute of Bankers may select them from a list of auditors compiled.

4387. *Mr. Sarkar*: Do you not think that it will be better if Government prepares a list of examiners from which each bank can select?—I do not think so.

4388. *Sir Hugh Cocke*: It is not quite clear from your answer whether you are in favour of examiners in addition to annual auditors?—Of course, the regular auditors would go through the accounts and examine the balance sheet, etc., but since the Reserve Bank when one is started is expected to help these banks, it might be useful in the interests of the Reserve

Bank and in the interests of the banks themselves to have a system of examiners as well.

4389. In the meantime you do not think it necessary to have examiners?—If the banks did that even now, it would be better in their own interests to attract more public confidence.

4390. *Chairman*: You say that you favour the idea that all foreign banks operating in India should obtain a licence from the Government of India on the advice of the Trade Commissioners in London. Regarding the operations of the foreign banks, you say that it is the opinion of your Chamber that they should be compelled to invest their deposit amounts received in India, in India itself and they should disclose in their balance sheets a statement regarding their transactions in India separately. Will you kindly tell us how you will compel these foreign banks to invest their deposits in India itself?—This may be made one of the provisions in the licence that may be issued to them.

4391. Apparently these foreign Exchange banks use their own funds and the funds that they are able to attract in this country in financing the foreign trade of this country. Therefore, will you please make yourself a little more clear what you mean by your statement "investing in India"?—They might be asked to invest their monies in industrial undertakings in India and any surplus that may be left over might be invested in Government securities.

4392. *Mr. Ramdas Pantulu*: Mr. Sastry of the Andhra Bank Ltd., who gave evidence before this Committee the other day told us that the European Exchange banks should be made to utilise the deposits received in this country in financing Indian exporters and importers and not foreign export or import houses working in this country. Do you agree with this suggestion?—Yes, that is a wholesome suggestion.

4393. *Chairman*: Can you tell me what portion of India's foreign trade is in Indian hands compared with those in foreign hands?—My impression is, that one-fourth is under Indian hands and the rest in foreign hands.

4394. I put it to you that only 15 per cent of the total is stated to be in Indian hands and 85 per cent in the hands of foreign businessmen. Therefore, if your suggestions are adopted, may I ask how you will propose to finance the remaining 85 per cent?—The Exchange Banks can find other sources to secure finance.

4395. Therefore your suggestion is that the Exchange Banks should bring out funds from abroad to cover that demand. Is that so?—They may do so.

4396. Then am I correct in understanding your position to be this. There is the 15 and 85 per cent to which we have already referred. You want that the supply of funds in regard to 85 per cent should be cut off except to that extent which might pass into Indian hands unless the foreign Exchange Banks care to bring money for this purpose from outside India, and if they do not care to do so, that part of the trade would be disorganised for the time being?—Yes

4397. *Mr. Khaitan*: Is it your grievance that you as an Indian do not like that the non-Indian Exchange Banks should receive from Indians about Rs. 70 crores of deposits and with the help of that very money they should finance the export and import trade mostly carried by non-Indian business houses in this country?—Quite so.

4398. Am I correct in thinking that you would like that some Indian exchange banks should grow up, whether it be the Imperial Bank or other Indian owned banks which should also deal in exchange business so that Indian exporters and importers may command better facilities than they are getting now at the hands of the foreign exchange banks?—Yes.

4399. Then your fundamental position is that these foreign exchange banks might utilise that part of their deposits in financing exports and imports done by Indians in this country and the balance if any must be invested in India itself?—Yes. Our whole idea is that some such restrictions ought to be placed on the operations of the foreign exchange banks in this country. We leave it to your Committee to make concrete suggestions in regard to this.

4400. I quite follow what your idea is. I note that you are anxious that this Committee should recommend that some legislation should be undertaken to facilitate Indians getting a larger share in India's foreign trade. Apparently your Chamber have not fully considered this point. Is that so?—Yes, we have not fully thought over this subject. We will leave it to the Committee to decide.

4401. *Mr. Manu Subedar*: What you have stated in your memorandum here is obviously what your Committee has thought out?—Yes, generally.

4402. Now you say that foreign exchange banks should be made to invest their money in India?—Yes.

4403. You know that when a foreign bank gets into difficulties, if it is not registered in India, and when its assets are not only from Bombay, Madras, Calcutta and so on, but include Hongkong, China, Japan, London and other places, the assets of the banks as a whole are pooled together and its creditors get a *pro-rata* dividend?—Yes.

4404. Are you aware that a Japanese bank failed a few years ago and it involved the loss of no less than Rs. 40 lakhs of Indian deposits?—Yes.

4405. Therefore the suggestion which you have made that the deposits received by such foreign banks should be utilised for the foreign trade of this country would not by itself ensure the safety of Indian deposits. Is that not so?—Yes, I agree with what you say.

4406. *Chairman*: Has your Chamber considered this point of view, namely, giving of protection to Indian depositors in foreign banks operating in this country?—We have not considered the question from that point of view.

4407. I think you have said a little while ago that the whole object of your Chamber is to see that the deposits raised in this country by the foreign banks should be used for the benefit of Indians in this country?—Yes.

4408. *Mr. Manu Subedar*: Is it then your idea that it would be better for Indians if these foreign banks were asked to register themselves in this country under the Indian Companies Act?—I do not know how that will improve the position.

4409. You know at present the accounts of these foreign exchange banks operating in this country are not audited in India, but if they were made to register themselves in this country as Indian joint stock banks, they would have to fulfil all the conditions that are now imposed on the existing Indian joint stock banks?—If registration will serve the purpose better than licensing, our Chamber will have certainly no objection to the proposal.

4410. *Chairman*: You say that "there is no co-ordination between these colleges and the banks". Do you mean to imply that there is no co-ordination between the Sydenham College of Commerce of Bombay and the banks, because you yourself say that there are no colleges in Madras?—We do not mean to say that there is no co-ordination between banks and the Sydenham College of Commerce. We were referring only to small commercial institutions and we only suggest that there should be co-ordination between these institutions and banks generally.

4411. *Mr. Devadhar*: Have you heard any complaints which go to show that mismanagement and even bank failures were mostly due to want of proper business training and experience on the part of bank managers and managing directors?—Yes, that is one of the reasons for bank failures and other trouble.

4412. Would you specify some qualifications for such people?—It will be better if certain qualifications are laid down for persons occupying these positions of responsibility.

4413. Would you then advocate some regular test should be held for such people?—Training in theory and practice of banking should be thorough and this should be one of the qualifications for the appointment of bank managers and managing directors.

4414. At present in Bombay, the Provincial Co-operative Bank has formulated a scheme of training for bank managerships and they also undergo a regular course of clerical training as it were in the art of bank management, etc?—That is a good scheme.

4415. Would you suggest that some selected bank managers and others should be asked to deliver some special lectures besides the practical training that the candidates undergo?—It would be certainly better if that could be done.

4416. Do you think that some people should be sent out to foreign countries as well for special training?—Undoubtedly it is a very good idea.

4417. But do you know that there are difficulties in the way of Indians getting themselves admitted into the banks of foreign countries to obtain their practical training in banking methods?—If there are such difficulties, they must be overcome.

4418. And you think that this Committee should make such a recommendation?—Certainly, that would be for the general banking welfare, if such a recommendation is made.

4419. *Chairman*: Have you had any personal experience in the matter of training of Indian youths abroad?—No.

4420. The Principal of the Commercial College, Bombay, (Mr. Davar) came before us and said that foreign training was not required as the Indian training was good enough?—So far as day to day banking is concerned, Indian training may be quite enough. But to study the latest methods in banking it would be necessary to send students out to other countries.

4421. Supposing the particular youth who received his training in India is not able to be appointed straightaway as the manager in charge of a bank; would it not be better for him to get the preliminary training in India and then when the time for higher promotion comes, to go and have some training in western countries?—That is exactly our Chamber's opinion and we have said so in our memorandum.

4422. Have you any idea as to how many Indians the Imperial Bank have?—No.

4423. You say the Imperial Bank is recruiting "a few Indians as probationers". You cannot say exactly how many?—No.

Mr. Lamond: There are 95 Indians in charge of branches of the Imperial Bank.

4424. *Chairman*: In view of that information, would you be prepared to qualify your statement?—Our idea is that there should be complete Indianisation.

4425. *Mr. Devadhar*: Sir, with regard to this figure of 95 I should like to know whether they are all sub-agents?

Mr. Lamond: The majority are in full charge.

4426. *Chairman*: Further you have said, "The Indian joint stock banks and the co-operative banks are manned by Indians, but many of the staff have not good banking experience or higher education.". How can any recommendation by this Committee force on these Indian joint stock banks and the co-operative banks a class of men whom they, under present arrangements, are not willing to take?—If facilities are provided for education and training and banks are asked to encourage candidates, much of the difficulty would disappear.

4427. *Mr. Ramdas Pantulu*: Do you get young men with a fair amount of training for co-operative banks?—That is what is being attempted at present in our province.

4428. Do you know that in the syllabus for the Indian Institute of Bankers' examination, co-operative banking is not one of the subjects?—I am not aware of it.

4429. Is there any institution where actual training in co-operation is given?—They are taking on a few apprentices for the purpose in Madras.

4430. Is there any institution which gives training specially in co-operative banking?—There is a school in Madras giving a general training in all the aspects of Co-operation.

4431. My impression is that much of the work of these banks is suffering from want of trained men. Do you agree with me?—Quite so.

4432. The Chairman just now asked you how you would enforce banks to employ men with practical training; will you go as far as to say that unless the employee had satisfied a particular standard in education and general efficiency, he should not be recognised for employment in, say, the Imperial Bank, or will you leave it to development in due course of time?—I would leave it to development in due course of time.

4433. *Chairman*: You say, "There will be good prospects if the boys are trained in banking. The slow development of banking and especially branch banking is due to absence of trained men". That I take it is the impression of your Chamber?—Yes.

4434. Does your Chamber include among its members any Indian joint stock bank like the Andhra Bank?—It has not become a member so far.

4435. Have you got any bank as a member of your Chamber?—I am told there are two banks at Masulipatam?—Our members are merely traders and merchants; the banks have not been included in our Chamber.

4436. *Mr. Manu Subedar*: Have you any indigenous bankers as your members?—Some of them are. Our president is a Gujerati gentleman.

4437. *Mr. Ramdas Pantulu*: Are there no Komuttis in the Andhradesa who do an amount of indigenous banking by receiving deposits from other people and by lending money?—They do.

4438. *Chairman*: Do they make a practice of receiving deposits?—They only receive deposits from their relatives and friends but not from other members of the public.

4439. *Mr. Devadhar*: Who does this kind of work (receiving deposits and lending money) in the villages in Andhradesa?—Komuttis do this work; they are the village sowcars.

4440. Do you think that necessary relief is being given to the agriculturist systematically by co-operative societies so far as the rates of interest are concerned?—Yes.

4441. You said that the rate of interest charged by co-operative societies would be something like 50 per cent. of the rates current in the market?—Not exactly 50 per cent. The co-operative societies lend at 9$\frac{3}{8}$ per cent.

4442. *Chowdhry Mukhtar Singh*: Is this 9 per cent. charged from individual members?—Yes from individual members.

4443. *Mr. Ramdas Pantulu*: Has your Chamber considered the constitution of the reserve bank which you propose or would you leave it to some future authority to settle the constitution?—That can be considered later on.

FIFTEENTH DAY.

Thursday, the 11th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. D. P. KHAITAN.	Mr. W. LAMOND.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. G. K. DEVADHAR, C.I.E.
Sir HUGH COCKE, KT.	Choudhri MUKHTAR SINGH.
Dr. L. K. HYDER.	Mr. NALINI RANJAN SARKAR.
Mr. V. RAMDAS PANTULU.	Seth Haji ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Seth Kasturbhai Lalbhai, representative of the **Ahmedabad Millowners Association** was examined.

4444. *Chairman*: Do you represent the Ahmedabad Millowners' Association?—I do.

4445. You state that at present cotton mill companies are financed, both for block and working capital, mostly by the managing agents of the companies and by public deposits. Will you kindly tell us the percentage of the deposits to the total capital required?—Approximately 80 per cent. of the total outlay is financed by deposits and by the managing agents.

4446. When you say 'total outlay', do you refer to total capital outlay and does it include working expenses?—I refer to working capital with the block account.

4447. We do not usually call working capital part of the capital. Then I would say that 65 to 75 per cent. of the total outlay is financed by deposits and by the managing agents, and if you include the working expenses it will be 80 per cent.

4448. Are these deposits for short terms only?—Generally speaking, they are deposits for one year. In some cases where recently new mills have been started, deposits have been taken in for a period of seven years, but these deposits have been collected from shareholders in the nature of debentures.

4449. Do these apply to new mills only?—Yes.

4450. Could you give us any idea as to how much has been raised in that manner?—Generally speaking, the system in Ahmedabad is that cotton mills are started with a capital of five lakhs of rupees. Out of 65 or 70 mills, more than 85 to 90 per cent. of the mills have a capital of five lakhs. The new mills have also been started with a capital of five lakhs, but the difference is that the five lakhs have been collected as a seven years deposit.

4451. *Mr. Khaitan*: You said that the deposits are in the nature of debentures. By that, do you mean that the company has executed a

mortgage or trust deed?—They rank *pari passu* with other deposits, the only difference being that the deposits being for a longer period of seven years, they serve the purpose of debentures.

4452. There is no charge executed on the mill?—None at all.

4453. Is there any undertaking that the mill will not be mortgaged?—None.

4454. Do you not think that debentures are even inferior to ordinary deposits, because ordinary depositors can take back their money at any time, whereas these depositors cannot withdraw their deposits until the expiry of the period of seven years?—That is so, but by giving a deposit for seven years they get a certain share in the agency commission.

4455. *Chairman*: To that extent they differ fundamentally from other deposits?—They do not differ as far as the character of the deposits is concerned, but as far as the interest of the depositor is concerned, they differ in that the depositors get a certain share in the agency commission, but for which they would not deposit for a period of seven years.

4456. *Mr. Khaitan*: Unless they are given a share in the managing agency commission, people would not come forward to deposit for such a long period?—That is so.

4457. *Chairman*: Therefore they get not only a certain rate of interest, but also a share in the agency profits?—Yes.

4458. The new mills are not raising any share capital?—They have raised.

4459. I thought you said that in the case of the new mills the whole of the five lakhs required are being obtained by these long term deposits.—I am sorry for the misunderstanding I may perhaps have created. The amount that will be required for starting a concern will be something like 20 to 25 lakhs of rupees, Rs. 20 lakhs being the block account and about 5 lakhs working capital. Out of the 20 lakhs it is the general custom to raise only Rs. 5 lakhs as share capital, the rest being the capital debt. If a mill starts with a block account of 20 lakhs, it will have Rs. 5 lakhs share capital, 5 lakhs deposits received for a fixed period of seven years, and the balance of 10 lakhs will be financed either by the managing agents or by the public as one year deposits.

4460. What about the working capital?—It will be financed by the deposits or by the managing agents.

4461. *Dr. Hyder*: What is the agency commission which the seven year depositors get? Is it a percentage?—There have been four or five such cases. There are 1,000 shares in the managing agency system, of which one share is given to a depositor of Rs. 5,000. That is to say, one who comes forward with Rs. 5,000 (Rs. 3,000 in the shape of ordinary capital and Rs. 2,000 in the shape of deposits) gets one share, *i.e.*, one-thousandth share as agency commission.

4462. *Mr. Khaitan*: Does he get this as an ordinary share?—The managing agency is made into a limited concern with a nominal capital of Rs. 1,000, each share being of one rupee and that one rupee share has considerably more value than the nominal value it represents. In some cases a one rupee share is worth Rs. 700 to 800. He has to put in Rs. 5,000 in order to earn one commission share.

4463. He must take up ordinary shares of the nominal value of Rs. 3,000 *plus* Rs. 2,000 as deposit for seven years and in return for these two considerations he gets one share in the limited company, which is the managing agent of the concern?—Yes.

4464. *Mr. Manu Subedar*: The Rs. 3,000 share capital which he takes might be for himself or for the market?—Quite so, but the deposit must be continued.

4465. Either in his own name or in the name of the nominee?—Yes.

4466. It is more or less in the nature of an under-writing commission?—You can put it like that.

4467. Has that system worked very successfully?—Very successfully.

4468. And do you find it safe in the sense that you finance the block account from deposits?—We have so far.

4469. *Sir Hugh Cocke*: Are not cases on record where such unusual methods of finance have brought the mills into serious trouble because depositors have demanded their money?—As far as the Ahmedabad experience goes, the system has succeeded beyond our ordinary expectations and I very much doubt whether the Ahmedabad industry would have progressed as well as it has done had it not been for the system of giving out shares from the managing agency commission. We would not have got either the capital for the industry or the working capital. Formerly, the managing agents used to take in persons who would bring a certain amount of capital, thereby earning a certain portion of the commission agent's share, but now the agencies have been made into limited concerns and shares issued, a proportion of which they can sell off at their sweet will.

4470. If your mills require finance to the extent of Rs. 20 to 25 lakhs and get 10 lakhs in all from these deposits either in the shape of share capital or deposit, that leaves a very large share for the managing agents to find?—It does.

4471. Do mills get anything from the banks on block account?—Very rarely.

4472. *Mr. Manu Subedar*: Is not that due to the fact that the charges of the banks are higher than the rates at which you can get depositors?—It is not merely because of higher bank rates, but banks are generally unwilling to advance any amount to the concerns.

4473. The bank is unwilling to advance amounts which would rank as capital debt?—But even for working capital the banks have been unwilling to advance.

4474. *Mr. Lamond*: One of the difficulties about that is that the Ahmedabad mills do not pledge or hypothecate their stock as the Bombay mills do?—If the mills were to hypothecate their stock, the whole fabric of their credit will be ruined. It is all the more reason why banks should finance such companies, because they consider their honour and credit to be so high that they are unwilling to hypothecate their stocks.

4475. *Mr. Manu Subedar*: If you were a bank director, would you recommend an advance in a case where the cash credit or loan or overdraft given by the bank would rank in the same position as deposits?—I would, on consideration of the party to which I am advancing and the stability of the concern.

4476. I put it to you that there are parties and parties. There are undoubtedly in Ahmedabad sound parties to whom it would not be difficult to recommend such advances by banks. But there are also weaker agents and some of them have failed. Have not they?—But I submit that the banks have not come forward to finance the best of the parties; that is my grievance.

4477. I understand that, but would you not qualify your suggestion that banks' advances should take the same position as deposits to the extent that they should discriminate and advance only to really some first-class agents and not to everybody?—Quite so.

4478. *Mr. Rushforth*: Do these public deposits come from individuals or from small bankers and traders?—They come mostly from individuals. Before the War, practically almost all the capital used to come from the public. Since the War, some of the industrial concerns in Ahmedabad have flourished and accumulated reserves and they are also inter-depositing, *i.e.*, one mill deposits with the other mill, not of the same agents. Supposing I have a surplus of ten lakhs in my mill, instead of lending it out to a bank on a smaller rate of interest, I would deposit it with another mill. But this is only a recent practice; formerly all the capital used to be forthcoming from the public at large.

4479. Do deposits come to you as they would go to a bank? What rates would you give for your deposits?—It is the view of the Ahmedabad public that after all a bank has got an office and certain papers, while a mill or an industrial concern has its buildings, machinery, etc., and it is therefore safer to deposit with the industrial concern than with the bank.

4480. Do the mills do any sort of banking business?—No.

4481. You refer to most of your deposits as long-term deposits. Are there any demand deposits?—No.

4482. *Dr. Hyder*: What is the size of the deposits? Do you receive deposits of small amounts from a large number of people or do you receive deposits of large amounts from a very few?—I think the deposits would rank just the same as with banks. They will vary from Rs. 5,000 to Rs. 10,000 on an average.

4483. *Sir Hugh Cocke*: You said that formerly the public preferred to put their money into a mill rather than into a bank. Is that so to-day, or has there been any change?—There has been some change. I shall come to that in a later portion of my statement.

4484. *Mr. Rushforth*: Does this system of obtaining capital in Ahmedabad attract any money from outside at all, or do you get most of your capital locally?—It used considerably to be from outside, *i.e.*, from the rural areas.

4485. *Mr. Manu Subedar*: Could you give us some idea of the total volume of deposits?—As far as my information goes, the total deposits with the mills is more than 7 crores of rupees.

4486. *Chairman*: Are your one-year deposits steady or has there been a falling off in recent years?—The deposits from the rural areas have considerably fallen off, but this has been replaced by deposits from the mill companies about which I have already referred.

4487. Therefore, there has been no reduction or falling off in the total volume of the deposits?—That is so.

4488. *Mr. Manu Subedar*: The mill companies' deposits, which you referred to, are really undistributed profits, *i.e.*, surplus finance belonging to the mill itself?—That is so.

4489. Has there been any diminution in deposits on account of the establishment of two banks in Ahmedabad?—I wish to make it clear that the deposits from rural areas have considerably fallen off for two reasons: firstly, the small towns round about Ahmedabad which used to put in a certain amount of deposits have declined in prosperity; secondly Government have come forward by giving 5½ and 6 per cent. interest for postal cash certificates. These are the two main reasons for the falling off in deposits from rural areas which, if they had not been replaced by the mill companies, would have brought about a serious situation in the mill industry.

4490. *Chairman*: Is it the experience of your Association that much of the money from the rural areas is now being invested in postal cash certificates?—I could not give you the figures. In the opinion of my Association this is one of the reasons why large amounts have been drained away from industries.

4491. *Dr. Hyder*: You say later in your memorandum that local mills obtain deposits from the public at rates varying from 5 to 6 per cent. so that really between the mills and Government there is not much of competition?—No, formerly, the rates were lower, 4½ to 5¼ per cent. When Government came forward giving 5 or 5½ per cent. for postal cash certificates, the mills had to increase their rates to 6 per cent.

4492. *Chairman*: But even so, a good portion of the money from the rural areas went into postal cash certificates in preference to deposits in mills, though the mills had also raised their rate of interest?—That is so.

4493. Would not that indicate greater confidence on the part of the investing public in postal cash certificates than in deposits with mills?—Certainly.

4494. *Mr. Manu Subedar*: Could you tell us the effect of the establishment of branches of banks in Ahmedabad on these deposits? Have the rates offered by the banks for fixed deposits attracted away also a certain portion of the deposits going to the mills?—They have.

4495. So that, when you suggest the extension of further branches, you would expect the same effect all round?—Ahmedabad is the only centre where the money that was required for industrial purposes has been drained away to other centres, but that does not mean the same thing would happen if you open branches of banks in other parts of the country.

4496. Had the rates offered by the banks in Ahmedabad anything to do with the increase in the rates by the mills?—It is very difficult to answer this question.

4497. It would be a matter of shrewd guess, but what would be your personal opinion?—They have adversely affected us.

4498. *Dr. Hyder*: What is the rate offered by banks on such deposits?—In the case of short-term deposits, banks offer as much as 7 and 7½ per cent. in the season. In the case of fixed deposits for a year, they offer anything from 4½ to 5 per cent.

4499. *Chairman*: May not the increase in the rate be connected with the general rise in prices?—No, it should be connected with the higher rate of interest offered by Government.

4500. Government had to offer a higher rate of interest, because the rate of interest in the market had gone up and was not this again due to the rise in prices generally?—I do not know that. The policy that has been followed by Government has been one of the most suicidal ones in the opinion of my Association. During Sir Basil Blackett's regimé the rates that were offered on Government securities were reduced by 1 to 1½ or 2 per cent. without any justification. When Government could easily have tapped the resources of the public and collected the necessary amount, they thought it a wiser policy to cut down the rates all at once and at very short notice. That has been more responsible than anything else for bringing about a higher rate of interest.

4501. Up to what year had you to pay 4½ to 5¼ per cent.?—Up to approximately 1923-24, I cannot be quite exact.

4502. Therefore, were you not paying higher rates at a time when, according to your statement, Sir Basil Blackett reduced the rates for Government loans?—No, because when Government went on reducing the rate for Government loans, they went on offering very high rates for postal cash certificates. You will probably find that in 1924-25 Government offered 6 per cent. for postal cash certificates, while we were offering 4½ to 5¼ per cent.

4503. Therefore it is not a question of Government borrowings. It was the rate offered for postal cash certificates which interfered with the deposits in your mills and it was for that reason that you had to raise your rate of interest?—Yes.

4504. I want to get the point clear, because your complaint was that it was the high rate of interest paid by Government generally which had the effect of reducing deposits in your mills. Now from the figures you refer to it seems that it was not the increase in the rate of borrowing by Government generally, but the rate paid by them for postal cash certificates which had that effect.—That is not my statement; I submit that the two go hand in hand. As far as the small depositors are concerned, these were induced by Government to put in their money into the postal cash certificates. Then at a later stage Government came forward offering high rates of interest and well-to-do people who used to deposit money with the mills were induced to go in for Government paper.

4505. I was trying to follow the process step by step. I gathered from you that your mills were paying something between 4½ to 5 per cent. up to the year 1923?—That is so.

4506. In 1923 you had to increase your rate to 6 per cent.?—Yes.

4507. At that stage in 1923 the rate of Government borrowings had not been increased?—No.

4508. Therefore the only factor which would have the effect of reducing the deposits in your mills would be the rate offered for postal cash certificates?—That is so.

4509. Then within the last eighteen months there has been, according to you, an increase in the rate of Government borrowings, apart from the postal cash certificates. Has this resulted in your having to further increase the rate of interest paid to your depositors?—That is so.

4510. The first stage was that you raised your rate to 6 per cent. in 1923. At what level does the rate stand now?—We go on adjusting our

rates according to the demand and supply of money. We had to raise it when Government raised it. Then a period came when there was plenty of money and we reduced our rates.

4511. In which year did you make the reduction?—I cannot give you these rates exactly off-hand. I shall send you the rates offered by my mills during this period which may enable you to decide the general rate offered by mills. It would be very difficult to obtain the figures of other mills.

4512. I find that Government reduced the rate for postal cash certificates to 5¼ per cent. from 1st April 1926; they further reduced it to 4½ per cent. from 1st July 1927. Did these have the effect of helping you to reduce your rate of interest?—I cannot say that from memory.

4513. *Mr. Khaitan*: Having regard to what we have heard from you, do you consider that it is safe for the mills in Ahmedabad to rely on getting these deposits from the public always, or do you think that some safer methods should be adopted?—This system has been put to the test for the last 25 years and the industry has succeeded so far. One cannot say for certain what will happen in the future, but so far as I can see, no change need be made in Ahmedabad.

4514. *Mr. Manu Subedar*: You just indicated that rates for deposits had to be revised and that the matter depended very largely on the question of demand and supply. Do you consider that if the volume of Government borrowing had been a little less, your position would have improved?—It should not be taken for granted that Government borrowing is the sole reason for the revision of rates of deposits with the mills. What I meant to imply was that Government borrowing was one of the main factors.

4515. *Chairman*: I think you told us a little while ago that in Ahmedabad you do not attract deposits from other parts of the country, but you mainly rely for your deposits on the Ahmedabad city and the rural areas adjoining the city. Is that so?—Yes.

4516. You are probably aware that it has been alleged that with deposits easily obtained at comparatively low rates mills in the past have speculated in cotton or carried larger stocks of finished goods than the state of the market justified and that some of them have even used this credit for extension of plant and machinery with the result that with the shrinkage of such credit an embarrassing situation is created for such concerns. Will you kindly tell us what your experience has been in the matter?—This statement is absolutely incorrect so far as Ahmedabad is concerned. I suppose the reference is to incidents which happened in Viramgaum and Broach where a small group of mills came to grief and this was mainly due to recklessness on the part of the managing agents. If the managing agent has got two or three concerns and if he finds trouble in one of them and he withdraws the capital from another concern, it is the duty of the Board of Directors to prevent it or it is the duty of the bank to see that no monies are withdrawn from the concern for which they had been taken.

4517. No banks are involved in this case. I suppose the parties involved are the mill authorities and the managing agents?—Somtimes banks also advance money to the managing agents and it is only when the latter misuse the same for their personal purposes that the mills come to grief.

4518. Were these mills that came to grief in Ahmedabad?—Two of them were. It was a managing agency concern and it had 5 mills under its management.

4519. You have said that in Ahmedabad it is not the practice for mills to go to banks for accommodation. That being so, I am at a loss to understand your reference to banks?—Generally speaking, the mills do not go to banks for accommodation, but there are instances where mills do take small advances from the banks. I do not mean to imply that mills do not keep any banking accounts at all.

4520. If it had been only a little amount, it was not likely that it might cause any great embarrassment to the mill. If you had not made any reference to banks and stopped there, it would have been all right. So perhaps the words "and banks" were added rather incautiously?—Yes.

4521. *Mr. Manu Subedar*: Did any depositors lose in the particular crash to which you have referred?—Yes, they did.

4522. Therefore, from the view-point of deposits, there is the danger to the system working very well in Ahmedabad as the depositors might get nervous about their deposits and would withdraw them from the other mills as well. Is that not so?—Ahmedabad depositors are very shrewd people. They knew full well that it was only because of the careless action of the managing agents that the mills had come to grief. In spite of the fact that some set of mills came to grief, the deposits in other mills did not diminish appreciably and the public still retained confidence in others.

4523. *Chairman*: Your point is that that was only a particular incident and no generalisations could be inferred?—Yes.

4524. You said that Ahmedabad is perhaps the only place in which the industry runs on finances received from the public and the managing agents with very little or no assistance from banks. While congratulating your Association on this position of the industry in Ahmedabad, may I ask you to explain to us the reasons why what is possible for the industry in Ahmedabad is not possible elsewhere?—The position is this. So far as the Ahmedabad industry is concerned, the industrialists have completely identified themselves with their concerns. As far as my information goes, Bombay mills used to be financed largely by public deposits until a few years ago, and even in the case of the Sholapur mills it used to be so. If the managing agents had only taken care to look to the interests of the public depositors there would not have been any trouble. When once the agents do not take minute care about these deposits, the confidence of the public is naturally shaken and the deposits are withdrawn.

4525. Would I be correct when I say that so far as Ahmedabad is concerned, the managing agents are able to keep the confidence of the depositors because of their business rectitude?—Yes.

4526. Does the difficulty in other places in getting finance arise from the fact that it does not give an adequate return?—It is the business integrity of the people in charge of the management of the mills that is responsible for the attraction or otherwise of public deposits.

4527. That being the position, would it be correct to blame a bank if under those conditions it refused to come to the rescue of the mill in a case where due to the lack of business integrity on the part of the management, the depositors lose their confidence?—There are two views

to be taken in this matter. One is that the bank should see whether the confidence of the public has been shaken merely because of temporary trouble of the concern or whether it has been shaken because of the wasteful management on the part of those concerned. If it is only a temporary affair, my point is that banks must come forward, and my complaint is that banks do not do so even when they full well know that the business integrity on the part of the management is sound.

4528. I am referring to cases where the mills had lost the confidence of the public because of wasteful management. Would you advocate that banks should advance monies to such concerns also?—No, certainly not.

4529. *Mr. Manu Subedar*: If you were told that the deposits in the case of the Nagpur and Swadeshi Mills in the management of Tata Company in Bombay had gone down, would you say that that was an exceptional case or would it come under the other class, *viz.*, absence of integrity?—I would say it is only an exceptional case. This might be due to the lack of confidence on the part of depositors in the mills, generally because of mill-failures, and the general depression.

4530. Your committee have expressed their opinion that banks ought to take up at least one-third of the block-account in debentures and advance freely on the security of liquid assets with about 25 per cent. margin and that such advances should not be dependent on the standing of the agents' firm, nor on the guarantee of the agents. It has been suggested that the correct method is that capital expenditure or block should be put up by the investor and not by the banks. Do you agree?—I do not agree. There is no country in the world whose industrial concerns are merely financed by Industrial banks. The banks as such ought to take a hand in the industrial concerns of the country although the banks might have obtained their working capital through short term deposits. The banks can naturally finance the industrial requirements from their other resources such as Reserves, etc., which are more or less of a permanent character.

4531. Is it so in England?—In England, the Lancashire mills were given large amounts by the ordinary banks. There are no industrial banks in England.

4532. Will I be correct in saying that banks in England financed the Lancashire mills only to provide facilities of reconstruction?—The position is this. In England the view that the banks took was that it was a national industry and that it was the duty of banks to help them, but here in this country, the banks take the view that the mills might go to dogs and that it was not the duty of the banks to finance them and thus to pull them out of danger.

4533. You know this help was given for re-construction as I have already said. Finances were not given for the ordinary working expenses or the ordinary expansion of the business or for block. It was given with reference to a general scheme of rationalisation. In fact I read recently in the papers that the mill authorities in Bombay are also trying to work out a scheme of rationalisation. I do not know what will happen, but if they are able to formulate a concrete scheme and later if the banks refused to come to the aid of the mills concerned, then you might be justified in making a complaint against banks in the way you did?—I will submit another instance. An English bank in India lent out a large sum of money to an Industrial concern in this country. It was for the capital outlay.

4534. Could you give the name of the bank?—I do not want to disclose the name of the bank for obvious reasons.

4535. *Mr. Buckley*: Are you referring to a transaction which took place up-country?—Yes, and I know the actual facts.

Mr. Buckley (to Chairman): I can give you all the facts about the case; I know the name of the bank myself.

Witness: I am absolutely certain of the facts. What I want to submit is that an incident here or an incident there should not be regarded as the general policy, but if this Committee were to make enquiries it will find that banks in foreign countries do advance even for block requirements of industrial concerns.

4536. *Chairman*: You have studied the position and so have I, and I daresay the members of the Committee as well. Except in the case of G.....banks of Germany, we do not find that it is the general policy of the commercial banks in other countries of the world to do this kind of work. Do you agree?—I do not say that it is the general policy. What I say is that they do take an interest in financing industrial concerns.

Mr. Khaitan: Do you know that in Austria and Hungary the commercial banks act in the same way in these matters as the German banks?—I have no knowledge.

4537. *Sir Hugh Cocke*: Are you a director in any bank?—No. I am a member on the consulting board of the Bank of India at Ahmedabad.

4538. Supposing a concern has been started with a capital of Rs. 30 lakhs and supposing it wants to raise another Rs. 10 lakhs to complete its block, would you consider it a banking proposition to advance that money?—No. If the concern would require Rs. 2 or Rs. 3 lakhs, I would not object.

4539. I am putting it to you as a point arising from your own suggestion that banks ought to come forward in taking up at least 1/3 of the block-account in debentures?—I would not advance the amount as a loan, but I would certainly take up Rs. 10 lakhs in debentures.

4540. *Mr. Khaitan*: And subject to a margin of 25 per cent. on liquid assets, you would consider it a business proposition?—Yes.

4541. *Mr. Manu Subedar*: Is it your view then that in regard to industries generally, banks in India have kept themselves in close isolation and have not come forward even to help sound industrial concerns?—Yes, that is my view. They do not even help in financing small amounts.

4542. Considering that the bulk of the working capital of joint stock banks consists of short term deposits, would you find fault with them if they desire to have their funds so invested as could be realised at short notice?—No, I would not find fault but they have got their own subscribed capital and reserve fund out of which they could advance.

4543. Those resources would naturally be relatively small and would they be adequate for doing this part of the business? Moreover, would not the shareholders of the bank blame the bank management if they would invest their monies, say the sum of Rs. 10 lakhs in debentures as you said a little while ago, and thus lock up their funds? Moreover there may be several other concerns like this. Do you want the bank to finance all the concerns and if they have to do so, do you not think that they will require a very huge capital, say Rs. 2 or Rs. 3 crores?—I do not say that one bank

alone should finance all concerns. There may be other banks who might be able to do so. After all there may not be much demand as established concerns will not go in for funds.

4544. Therefore your reference is only to new concerns, and your proposition is that to the extent to which the banks will be able to finance safely, they should do so?—Yes.

4545. *Mr. Khaitan*: In order to understand the point fully, may I ask one question? Supposing one concern goes to the bank and takes debentures. The bank will be able to sell those debentures in the market and with the name of the bank behind it people may have confidence and may buy those debentures. Supposing another concern then approaches the bank and the bank might be able to help the other concern too. So you think that the commercial banks as they exist at present might be able to help companies both for purposes of block account and for working capital?—Yes.

4546. *Chairman*: Now about these debentures: would the mere fact that a bank has, to start with, invested money, make those debentures more marketable?—In my opinion, it would.

4547. Have the joint stock banks always refused to advance against block?—That is so.

4548. Have they not advanced money on the mortgage of the block?—They have insisted on the personal security of the managing agent.

4549. I hope your remarks do not apply to the Imperial Bank so long as the present Imperial Bank Act remains in force?—I submit, Sir, that the Imperial Bank has refused to advance money even on the working capital of the concern, which is something perfectly permissible under the Act as it stands.

4550. Do you not admit that before the Imperial Bank can advance any money, it must be satisfied about the security which is offered?—My submission is that the way in which the Imperal Bank works is wrong. If the Imperial Bank were to follow the same system as has been followed by the Bank of India, for instance, it would be more helpful to the concerns. As it is, the agent of the Imperial Bank, who is a European gentleman, when asked to make a report on behalf of a particular party would depend on his shroff for information regarding the status and financial position of the party. On the other hand, the system followed by the Bank of India is to have a local board of directors who take the fullest responsibility for any recommendations that they make. In my opinion if the Imperial Bank were to work on the same lines, it would satisfy local requirements.

4551. *Chairman* (To Mr. Lamond): The Imperial Bank has not got an advisory board in Ahmedabad, but it has one at Bombay. Now what is the system on which the Imperial Bank proceeds? Is your agent at Ahmedabad the final authority?

Mr. Lamond: The agent submits his report to the Bombay board and the Bombay board decide.

4552. *Chairman*: So they do not decide solely on the advice of the shroff a demand from a mill at Ahmedabad for an advance for working expenses?—(Mr. Lamond). The local agent puts his recommendations up to the Board at Bombay and it is the Board at Bombay which will decide whether this advance can be given and what security should be demanded for it.

Witness: My submission is that even if half a dozen men of the ability of Sir Purshotamdas Thakurdas were to be on the board of the Imperial Bank at Bombay, they would not be able to find out all particulars about each and every party on whose behalf proposals were made to the Imperial Bank, either at Ahmedabad or up-country centre.

4553. *Mr. Lamond*: The members of the local Board can make individual enquiries.

Witness: I have known cases in which a party worth 3 or 4 lakhs has been reported as worth ten thousand only, and also where a company worth a few thousands has been represented to be worth some lakhs.

4554. *Chairman*: You said that the Imperial Bank agent makes enquiries through his shroffs. Do you mean to say that these shroffs are to that extent untrustworthy? Would they misinform the bank authorities about the position of a particular party?—It is not possible for a shroff to find out exactly the status and the position of each and every person. After all he will approach just one or two or at the most three parties with whom he is mostly in touch. If, on the other hand, local advisory boards were set up, they would be able to make complete enquiries from all possible sources as they would be in touch with a considerably wide range of people, and thus they would be able to furnish information which would be rarely disputed, while enquiries by mere shroffs are not likely to result in satisfactory reports in all cases.

4555. *Mr. Lamond*: Can you tell me whether your shroffs belong to the indigenous banking community?—(Mr. Lamond) They are our men, trained by the bank.

4556. From what class are they taken?—They are local men. But, Sir, our enquiries are not confined to enquiries by shroffs only; our agents make enquiries too.

4557. *Chairman*: (To the witness) So you think that the only way in which this can be remedied, so far as the Imperial Bank is concerned, is by having local advisory boards?—It is a very important proposition in my opinion.

4558. *Mr. Buckley*: This suggestion of local advisory boards no doubt has its advantages. But do you not think that a disadvantage would be that a merchant of Ahmedabad would hesitate to do his business with a particular bank on whose advisory board a certain competitor of his sits, on the ground that he would disclose his business to his rival?—The experience gained so far by the Bank of India has been just the reverse. The people who are asked to work on these advisory boards should be people who are expected to tender the best and most disinterested advice to the Board at the head office, regardless of personal rivalry or other similar considerations.

4559. You do not think a merchant whose competitor is sitting on the local Board will remove his account to another bank?—No.

4560. *Mr. Khaitan*: With regard to this question of Mr. Buckley, if his contention were correct, in your opinion would not similar difficulties arise in the case of the directors at the head office.

4561. Then as regards the Imperial Bank, you said that it should not be necessary to hypothecate stocks with the Imperial Bank in order to get advances for working capital. Is it because you think that the Imperial Bank, even as at present constituted, is at liberty to advance money on two signatures and that in the case of the mill, the mill and the managing

agent could furnish the two signatures required by the constitution of the Imperial Bank?—That is so.

4562. Is it your intention that on the strength of these two signatures, the Imperial Bank should, in proper cases, advance money for working capital without requiring the hypothecation of stocks?—That is so.

4563. Is my impression correct that at present in India the banks refuse to advance any money for block purposes, that is, either for extension of the mill or for replacement of old machinery by new? Is that your experience?—That is so.

4564. Even if a bank were prepared to advance money for working capital and if they later came to know that the money advanced would be utilised for extension of the mill or for replacement of the old machinery, would the bank hesitate to make the advance?—I cannot say definitely.

4565. *Chairman*: We have been told by a banker that the chief reason for the want of adequate support to the industry from the banks is that it is not a profitable industry at present and that as year after year there have been losses and reduction in capital, there has been a fall in the value of the securities held by the banks and that they are therefore reluctant to make advances to some of the textile industries. This explanation was given with reference to the Bombay mills. Will you give us your experience as regards Ahmedabad? I think you have already answered that. You do not approach the banks because you generally get money from your depositors. You have also referred to the confidence which the depositors have in the mills. As regards advances against liquid assets will you kindly tell us if the banks usually insist on the additional guarantee of agents?—That is so.

4566. If a loan has to be only on the liquid assets, surely those assets must be hypothecated to the bank?—I agree.

4567. It has been stated that in some cases managing agents provide finance to the cotton mills on consideration of being appointed agents for buying raw material and selling or distributing the products of the industry concerned. Is that your experience in Ahmedabad?—It is for the selling that they get a commission, not for buying.

4568. But in Ahmedabad the raw material is quite close to the mills?—Yes; but it is being purchased through agents or aratias who get their commission on the sale of the raw material.

4569. *Mr. Manu Subedar*: What is the rate which the managing agents charge to the company for the money which they advance?—Never more than 6 per cent.

How does it compare with the rate allowed for deposits by the company?—It compares very unfavourably with the rate of deposit inasmuch as the agent has got to advance any amount that will fall short of the finance required by the mill, and the advanced amount is returned as the mill's finances show a surplus.

4570. *Dr. Hyder*: On the other hand the managing agent has to make good losses if any?—Yes.

4571. *Sir Hugh Cocke*: Have you ever known a managing agent earning a buying commission of any sort?—There are agreements like that, but they are never put into practice.

4572. Not on machinery?—No Ahmedabad mill agent would ever get commission on machinery even if the agreement permitted it.

4573. *Mr. Ramdas Pantulu*: In the co-operative banks our borrowings are proportioned to the capital. Would you like such a limitation being placed upon the joint stock companies?—The two are different. In the case of mills, the managing agents are working for their own personal benefit and therefore completely identify themselves with the concern in order to finance it to an unlimited extent. This will be lacking in the case of co-operative societies and therefore, in my opinion, it would not be advisable to have a limit.

4574. *Dr. Hyder*: Do you get any money from provincial co-operative banks?—No.

4575. *Chairman*: You state that the banks in your province have so far failed to render any assistance to the industry. Does that mean that during the last 25 years this system of financing by deposits has been in force in your mills?—No.

4576. *Mr. Lamond*: The Imperial Bank has helped the mills and it does lend.—I have never said that the entire financing is done by financiers, it is done by banks also. But as far as the exchange banks are concerned, they have never taken a hand in the Ahmedabad mill industry.

4577. I know that some of the Bombay exchange banks have lent money to the Ahmedabad mills.—Not to my knowing; if it has happened, it may be an isolated instance.

4578. *Chairman*: Instead of saying 'never', would you say that generally speaking they have not taken a hand?—Yes. As far as the Imperial Bank and other joint stock banks are concerned, they have made advances of small amounts to the Ahmedabad mill industry, but the amounts are insignificant considering the requirements of the industry as such.

4579. Has there been any drastic curtailment during recent years?—I do not say that there has been any drastic curtailment, but I do say that ever since the incident of the 'group' to which I was referring, the policy followed by the Imperial Bank has been over-cautious.

4580. *Mr. Devadhar*: If there had been a limitation as in the case of the co-operative banks, would the banks be willing to advance more than they do at present?—I do not think so.

4581. *Chairman*: Can you tell us whether you have any information as regards commercial and industrial concerns in Ahmedabad financed by banks in Bombay directly or indirectly through the shroffs?—No.

4582. The case mentioned by Mr. Lamond was one such case, where an Exchange bank in Bombay financed the mill industry in Ahmedabad. But you have no knowledge of this case?—No.

4583. You complain that money has been drained away from Ahmedabad to the detriment of local trade and industry. I believe you refer to the deposits received by the branches of banks having their head offices outside Ahmedabad?—That is so.

4584. *Dr. Hyder*: Do you also include Government in this process?—Of course.

4585. *Chairman*: You are probably aware that there is a general complaint preferred from time to time in all parts of the world against the joint stock banking system, one of the features of which is to spread its activities over a wider area and a greater range of trade and industries than is the case

with private banks. Have you any statistics to show how the position of trade and industry in Ahmedabad has been affected by this diversion of funds to other areas?—I have not got any statistics to submit, but as far as I know, more than a crore and a half of rupees has been drained away from Ahmedabad by the branches of the Bombay banks, which could have been profitably employed in the local industry.

4586. When you say 'profitably employed', do you mean that it would have led to a reduction in the rate of interest charged to depositors?—No, there would have been an expansion of the industry by the free movement of deposits.

4587. Would it not also follow that thereby the development of industries in some other place would probably have suffered?—My point is that when a bank takes deposits in Ahmedabad, it is its primary duty to see first to the needs of Ahmedabad and then, if there are any surplus funds left, engage them profitably in other centres.

4588. But your proposition is that banks do not at present advance money to industries except on certain forms of security, which are repugnant to the managers or authorities of your mills. That being so, if they simply retain the money at Ahmedabad, it would have helped nobody?—Yes.

4589. *Mr. Khaitan*: You referred to the expansion of the industry in Ahmedabad being possible. Do you simply refer to the extension of existing cotton mills, or the establishment of new cotton mills, or to the establishment of other industries?—I refer to all the three.

4590. Could other industries have come into existence?—There are about three or four other industries in Ahmedabad which would have flourished if the banks had helped them.

4591. Could you give us the nature of these industries?—There are oil mills and the oil seeds being a crop growing round about the Ahmedabad district, it would be advantageous to crush the oil in Ahmedabad instead of carrying it to other centres for crushing. Then there are flour mills and match factories, which could have obtained funds from the banks to their advantage.

4592. In this way industries would have flourished and other industries might have come into existence?—Yes.

4593. *Chairman*: That would have been possible only if the banks changed their methods?—Yes.

4594. *Dr. Hyder*: Do these banks offer higher rates to depositors than mills do?—There is practically not much difference; the difference will be ½ or 1 per cent.

4595. Does the Imperial Bank offer 5½ or 6 per cent?—No, the Imperial Bank must be giving 3½ per cent. for their deposits.

4596. What other banks are getting deposits?—The Bank of India and the Central Bank of India.

4597. What do they offer?—They are offering 4½ to 4¾ per cent. for twelve months.

4598. Still why do people put their money in these banks?—Certain classes of people, say the official class, always go to banks and only in the absence of banks would they go to the mills.

4599. Do you not think that they would send their money to Bombay for deposit?—They have not the capacity to do it.

4600. *Mr. Devadhar*: You say that there is scope for the development of other industries, *e.g.*, oil, flour and matches, was it not possible for leading financiers in Ahmedabad to help these industries?—They themselves are short of funds.

4601. But you gave us to understand that you had plenty of money and never suffered.—We have been able to meet our requirements fully, so far as the cotton industry is concerned, but there has not been any surplus to finance the other industries.

4602. *Mr. Lamond*: Do the Ahmedabad financiers hold Government paper?—Very few.

4603. *Chairman*: You suggest that banks should come forward to assist the internal trade by accepting 30 to 90 days drafts as is being done by foreign banks who finance the import of foreign goods. Will you kindly tell us how according to the experience of the members of your Association the foreign exchange banks finance the import of foreign goods?—The goods are shipped mostly from England or the United Kingdom and 30 to 90 days draft is drawn on the importer. The latter has the choice to pay it within that time and if he is not in a position to do so, the bank warehouses the goods and when the importer is able to obtain funds, he pays off the bank and gets the goods.

4604. You are of opinion that the introduction of a system of acceptance credit for inland bills would help the internal trade of the country just as it helps the finance of the foreign trade of the country. Can you tell us why there is no such system in this country?—No such system has existed in this country, because the banks exist here merely for taking deposits and advancing to those who come with folded hands to them. They have never cared to canvass business. In other countries, we find that banks canvass business just as much as any commercial concern. Here, on the other hand, banks have always held that they are existing merely for taking deposits and advancing on the safest security without the least idea of helping the commerce, trade or industry of the country.

4605. Are not Muddati Hundis something like these 30 to 90 days' drafts?—No, they have nothing to do with the financing of trade. Merchants who have got a certain status will draw a hundi of 30 to 90 days and the bank accepts it if it is satisfied that the status of the merchant is satisfactory, but it is not being negotiated for the financing of trade.

4606. But it is used for financing.—That is a different proposition.

4607. *Mr. Devadhar*: The bank does not come forward to help the particular concern, but recognizes the credit of a particular individual?—That is so.

4608. *Mr. Lamond*: I know that a certain amount of canvassing has been done by banks in Ahmedabad; but apart from that business houses ought to go to the bank and state what their requirements are. The banks do business of the nature you have referred to, *i.e.*, they take bills. If the Ahmedabad mills will not state to the banks what their requirements are, you cannot force the banks on them.—I think the duty falls on both.

4609. *Chairman*: So far as I know, the system of Muddati hundis has been in vogue in this country for a number of years. Would not that be

equivalent to these 30 to 90 days drafts?—No, because those dealing in *Muddati hundis* are a class of people, separate from those engaged in trade and commerce. There are about 300 merchants in Ahmedabad who are dealing in piece-goods. If the banks had cared to canvass business, they could easily have got 20 to 30 per cent. of them to draw 30 to 90 days draft against those to whom they are consigning the goods. These merchants have to extend the credit to upcountry merchants and it would have facilitated them if the banks had discounted their bills.

4610. Is that in answer to the last part of my question whether you anticipate any special difficulties in the development of trade acceptance credit in this country?—No. I feel that there are no clearing houses here, with the result that the charge which the banks are called upon to pay for discounting hundis is high. Naturally it would be difficult for a bank to discount a hundi unless it has its own branch in the other centre. Supposing I have to consign my goods to Bezwada, unless the Imperial Bank has a branch at Bezwada, it will have to discount the hundi through another bank, and therefore I shall have to pay a higher rate for discounting it. It is essential in my opinion to have a clearing house for each Presidency, wherein the hundis can be cleared and the bank charges kept as low as possible.

4611. Therefore, am I correct in assuming that the only difficulties which stand in the way of the development of trade acceptance credit in this country are firstly, more sympathetic treatment on the part of the existing banks and, secondly, the establishment of clearing houses which would bring down the rate of interest?—That is so.

4612. But if I understand you correctly the essential need is more sympathetic treatment on the part of existing banks?—Yes.

4613. You mentioned the joint stock banks and the Bank of India. Is not the Bank of India taking any interest in the development of this part of the business?—It would not pay it; unless the bank has a branch upcountry where the goods are being consigned, it would not pay the bank or the merchant to discount the hundi. The rate that will be asked for by the bank upcountry will be a very high one which the merchant may find it difficult to pay.

4614. That can only be solved by the establishment of more branch banks at various mofussil stations in the country?—Not necessarily; it can be solved by an agreement among the banks undertaking to charge only a particular rate for the purpose of discounting bills. Suppose the Imperial Bank negotiates a hundi from Ahmedabad to Bezwada. The Imperial Bank, even though it may not have a branch at Bezwada, may come to an agreement with the branch of a Madras bank at Bezwada that any hundis which the Ahmedabad office of the Imperial Bank draws upon it will be dealt with at a particular rate; similarly any hundis that are drawn by that bank on Ahmedabad or other centres would be dealt with at the same rate. If such an agreement were arrived at, there would be no need to wait until more branches are opened by the Imperial Bank.

4615. That does not wholly settle my difficulty. You are talking of two stations, Ahmedabad and Bezwada, but there may be a third place say, in the Madras Presidency where no bank has a branch. As it is, there are numerous places in India where no banks exist.—For such centres

branches will have to be opened or they could be dealt with by arrangement with a shroff of the place. But until an agreement is reached among the banks to deal with the drafts at a particular rate, it would not pay the merchant to negotiate through the banks direct.

4616. *Mr. Khaitan*: Are not *Muddati hundis* simply accommodation hundis drawn by a person either on himself or on a friend on 30, 60 or 90 days sight, not backed by any documents of title to goods?—As far as my knowledge goes, that is so, but partly they may be for financing trade.

4617. Ordinarily, *Muddati hundis*, as they exist in India, are purely accommodation hundis and they are not treated as acceptances in the sense that they do not represent any actual transaction?—Yes.

4618. The trade acceptances that you refer to would be drafts drawn in respect of specific transactions of goods. If a mill in Ahmedabad buys Tirupur Cambodia, the firm in the Madras Presidency should be able to draw a bill on the Ahmedabad mill, on 30, 60 or 90 days sight and if a bill of lading were to be attached to it (either D/A or D/P according to the standing of the parties), the Ahmedabad mill would accept the hundi and either the goods would be stored in the godown of the bank or if it is a D/A bill, the railway receipt would be handed over to the buyer and payment made according to the usance hundi?—Yes.

4619. Similarly, in the case of sales. If you sell goods to a customer at Muzaffarpur, you should be able to discount a hundi drawn on your buyer on 30, 60 or 90 days sight and the bank should easily be able to negotiate these hundis?—Yes.

4620. If the bank in Ahmedabad has not got a branch at the place to which you send the goods, you said a higher commission has to be paid. Is not that because the bank in Ahmedabad, not having a branch at the place of destination, has to get it done through another bank and the bank which realises the money from the buyer charges a commission, and the bank that negotiates the hundi at Ahmedabad also charges a commission?—That is so.

4621. Therefore two commissions are involved, the result of which is that, not only because the banks do not canvass for business, but also because of the higher cost, these bills have not come into existence. In your view this difficulty could be solved if there were some arrangement between the different parties, or where banks do not exist, between the banks and shroffs, whereby the business could be done by charging one commission only by the bank which first negotiates the hundi.—That is so.

4622. *Chairman*: Mr. Khaitan referred to hundis backed by railway receipts. In your province is it not the custom to make use of these for the purpose of obtaining credit?—Very rarely.

4623. In certain other provinces we know that use is made of them and a complaint was made that owing to the practice of railway companies these could not always be relied upon. We understood the other day that owing to a change made in the Sales of Goods Act, that difficulty has been removed, but that custom does not prevail in your province?—No.

4624. The Bombay Committee on this point say: "We have tried to ascertain whether bankers or traders have experienced, or anticipate, any special difficulties in introducing the system, but the only explanation that is forthcoming is that it is not the custom." If that is so, there ought not to be any difficulty. In any case, if Indian businessmen in

Bombay were willing to change the custom, there would be no difficulty in starting an arrangement connected with hundis backed by railway receipts, which, so far as we are aware from the Provincial Committees' reports, have come into vogue in other provinces.—There would be none, if only banks care to canvass this sort of business and come forward with reducing the banks' charges by making some agreement with other banks.

4625. *Mr. Lamond*: In regard to these trade bills, you say the bank charges are too high?—My complaint is that they are not only high but the banks are also not canvassing for the same. There are not enough branches of the Imperial Bank to do this business.

4626. We have over 160 branches all over India.—But that is not enough for such a big country like India.

4627. *Chairman*: So one of the difficulties in the way is the fewness of the branch banks in India. And that is precisely the reason why I put to you the question because we have been told by other witnesses that there is no need for further branch banking in this country.

4628. *Dr. Hyder*: In regard to this canvassing is it your view that the banks ought to have shown a little more enterprise?—Yes.

4629. If there are no obstacles in the way, what do you think can be done to introduce and develop the system? I note your first point is that at present there is no co-ordination between the existing banks and the traders?—Yes.

4630. Even if that co-ordination could be secured, you do not think it will be wholly successful?—Two things should be done. Firstly, there should be a clearing house for hundis in all provincial capitals and secondly, branch banking should be further extended.

4631. You state that if better banking facilities are made available to up-country merchants to enable them to send their cotton to Ahmedabad for sale, Ahmedabad would become a big centre for ready cotton. Will you kindly tell us if any attempts were made to secure banking facilities for this object and whether there was no response from the banks?—That is so again. There again it is a question of co-ordination. Ahmedabad is a very big centre which consumes about 4½ lakhs of cotton bales. Most of the cotton that is purchased now is through middlemen to whom commission has to be paid and then these middlemen have to pay commission to the up-country people, which ultimately reduces the profits of the growers. If banks were prepared to afford facilities by opening a warehouse and let the people know that they are prepared to advance up to 75 or 80 per cent. of the value of the goods lodged with them, then naturally a market will be created in Ahmedabad and then it will be to the ultimate benefit of the grower as well as to the mill concern. The benefit to the mill concern will be that instead of knocking about from place to place for its requirements it will readily be able to purchase the quality it requires from the warehouse.

4632. *Mr. Lamond*: Are there possibiilties of having godowns in Ahmedabad?—Yes, there are private places which could be hired by banks.

4633. *Mr. Lamond*: How many bales could the godowns hold?—They could hold about 20,000 bales.

4634. As a matter of fact the main difficulty we found in Ahmedabad was that people were not willing to pledge their stocks in the warehouses?—It is not the big merchants and dealers who will deposit their stock in the warehouse, but small traders will not hesitate to do so.

4635. How many bales you think these small traders will have?—They may have 50 to 100 bales of cotton each.

4636. *Seth Haji Abdoola Haroon*: Whom are you referring to, the smaller traders or the cultivators who will store their produce in the warehouse?—Some cultivators who are fairly well off may also do so like other traders.

4637. *Mr. Devadhar*: Can you tell us what proportion of the cotton which is consumed in Ahmedabad itself by the mills is produced in the Ahmedabad District?—About 75 to 80 per cent.

4638. Could you tell us how the mills collect the cotton?—Some farmers who are fairly well off sell it direct to the mills, others who are not so well off sell it to the sowcar who finances him and as the latter is short of finance, he in his turn sells it through the town shroff who finances him.

4639. Do not the mills advance monies to these growers themselves?—No such practice exists.

4640. Does the small agriculturist try to collect his requirements of finance through co-operative societies?—You know that co-operative societies are very unpopular in my district.

4641. *Dr. Hyder*: Why is it so?—I do not know what it is due to. I know that during the floods in 1926-27 Mr. Devadhar tried to advance money as relief to the sufferers on a co-operative basis, but the people refused to accept such loans.

4642. *Mr. Devadhar*: Do you think it would be advantageous to the small farmer to market his crops on a co-operative scale?—Yes. It has succeeded in Surat, because the condition of farmers and agriculturists in Surat is fairly good.

4643. Do you consider that there is scope for primary marketing?—Yes.

4644. And for that purpose do you think the co-operative organisation for the purpose of marketing would succeed?—That I am unable to say owing to lack of co-operative knowledge.

4645. *Mr. Ramdas Pantulu*: You spoke of the three different agencies through which cotton is purchased and sold. Which of these three would be most advantageous from the cultivator's point of view?—Decidedly when he markets his goods himself.

4646. Are there local market centres in and about Ahmedabad?—Of course there are possibilities, but the difficulty is mainly one of finance.

4647. *Mr. Manu Subedar*: With regard to the price which the cultivator is actually able to receive, do you not consider that the main factor is competition amongst the purchasers?—Yes.

4648. Is there adequate competition at present amongst the mill-owners now in purchasing cotton?—The competition is naturally restricted at present.

4649. Because there are only a few buyers and they in most cases combine against the sellers. Is that so?—I cannot say.

4650. But do you think that the range of competition will be greater if there had been a warehouse where the stock could be collected and sold at will?—Yes.

4651. By so doing you think the mill-owners will not be able to form a ring round the cultivators?—That is so, but the cultivator will not get a better price for his cotton.

4652. *Chairman*: Will not this arrangement itself conduce to the establishment of a ring against the sellers?—I do not think it will. Because if the Ahmedabad mill-owner will not purchase the cotton, the cotton can easily be sent to Bombay where there are any number of purchasers. After all the cultivator is not losing in the transaction, for Ahmedabad is only on the way to Bombay.

4653. You state that the charges for remittance are very heavy, and that these can only be remedied by the expansion of banking and inter-banking competition. Will you kindly tell us what charges the merchants in Ahmedabad have to pay and whether there is no competition between the local banks in this business?—There is no competition. (Banks generally approach the Imperial Bank and they come to an understanding amongst themselves and fix a rate which has to be paid.

4654. Do you mean to say that there is a ring amongst banks in regard to this?—I do not say there is a ring but all that I mean to convey is that they do come to an understanding by which the Imperial Bank would not sell to ordinary merchants or mill-owners at the same rate as they would sell to the banks in general and therefore the mills have naturally got to pay a higher rate.

4655. And the Bank of India have naturally to follow the foot-steps of the Imperial Bank?—Yes.

4656. *Mr. Lamond*: Are you aware that so far as the Imperial Bank of India is concerned there are scheduled rates fixed in regard to this?—Yes, I know.

4657. Then what is your complaint?—I don't make any complaint at all, but I am only mentioning facts.

4658. *Chairman*: You state that licenced warehouses would assist the trade greatly and you suggest that Government should take the initiative in the matter and guarantee the payment of interest. May I take it that you refer to the interest on the money required for the building of the warehouse?—Yes.

4659. Can you tell us whether you expect that such warehouses would be self-supporting within a short time after their establishment?—It is a big prophecy to make. Until some experience has been gained we cannot for certain say in regard to this whether they would be self-supporting. I am a member of the Central Cotton Committee and my knowledge is that they have succeeded very well in Egypt and our Committee have recommended to the Government the advisability of having such warehouses.

4660. *Mr. Khaitan*: Do you think an experiment can be made by hiring the existing warehouses?—Certainly.

4661. *Mr. Devadhar*: I do not think that there is any public spirit lacking in your district among co-operators for making an attempt in this direction and making it a success?—Unless there is a well defined and well thought out programme like that of the Congress in the present day and unless there is discipline, I do not think the co-operative movement will succeed. What I mean to imply is that unless the co-operative movement is able to gather round it such public-spirited members of the public as

the Congress is able to do, I am afraid, the co-operative movement will not thrive.

4662. *Chairman*: You also favour the establishment of industrial banks under the control, and with the aid, of the State. Do you consider want of sufficient capital to be the principal difficulty in the way of starting new industries?—Want of sufficient capital together with the present policy of Government.

4663. Therefore, if there is no immediate possibility of a change in the policy of Government, would you still desire the industries to be helped through the Industrial Bank?—I think this Committee can dictate to the Government in the matter of policy regarding the establishment of new industries. Our impression is that this Committee has been appointed with a view to affording facilities for trade, commerce and industry, particularly keeping in view the interests of the grower.

4664. But my point is that if there is not going to be any change in the policy of Government to which you refer, would it still be desirable to provide facilities for sufficient capital?—Yes, but how can there be development of banking without industrial development?

4665. *Chairman*: Development of banking is not dependent *per se* on development of industries. Even if there were to be no further development of industries in the country, there would be industries already existing in the country, there is, for instance, the foreign trade and internal trade which would require banking facilities. Even under the present policy of Government new industries are growing up, but you think that this development is slow and you ascribe this slow development to a certain policy of Government. This Committee is not concerned with that aspect of the problem. What I want to know is whether any advantage would be gained by providing better facilities for capital even if the present policy of Government were not changed for some time?—Certainly.

4666. *Mr. Ramdas Pantulu*: The success of an industrial bank, you will agree, would depend upon the facilities to develop industry. If there is no such atmosphere for the development of industry, the development of industry would in your opinion be very problematical. Under the present conditions do you think that the scope for industries is very limited?—That is so. The view of my Association is that in India there is hardly any industry at the moment worth speaking of except cotton, jute and coal, but they believe that a number of industries will spring up if Government change their present fiscal policy.

4667. In what way?—By giving protection to industries.

4668. I knew this was at the back of your mind all along, but this is a question which even a democratic form of Government with a democratic Assembly will not be able to decide so easily. In any case it is outside the purview of this Committee and so I would not pursue it further. But supposing the policy of Government in regard to protection does not change, would you still advocate the provision of better facilities?—Certainly. The view of my Association is that if banking facilities were forthcoming, industries would certainly flourish. But in order to get them established on a proper footing, it would be helpful if the fiscal policy of the Government were changed.

4669. Will you tell us what form in your opinion the State aid should take?—The State should guarantee a particular amount of interest on the

amount of the subscribed capital, and when a Central Bank is established, it should come forward to discount the bills of the Industrial Bank, discounting only such bills as may be maturing within a short period, say, a year or two, so that the difficulty of the central organisation in not discounting because of the Industrial bank's debentures being for a long period, may be overcome.

4670. You say that Government should guarantee interest on the share capital. Will this guarantee be for a period of years or will it be a permanent one?—For a period of years only.

4671. How many years?—Say, ten to fifteen.

4672. *Mr. Khaitan*: Would you have any objection if the Industrial Bank sold those debentures in the market?—No.

4673. Supposing the Industrial Bank instead of selling those debentures which have the security of one particular industrial concern only issued its own debentures, would you have any objection?—No.

4674. Therefore, in your opinion the Industrial Bank should have power to get capital subscribed through shares, to sell debentures in the market, etc.?—Yes, and if it finds it necessary to get further funds, then it must be possible for it to get those debentures discounted by the Central Bank when those debentures are falling due within a year or two.

4675. So in your opinion the period of usance should be one or two years?—Yes.

4676. There is another method about which I want your view. Do you propose that the Industrial Bank may have facilities for working capital in addition to block capital?—There would be no harm, but individual cases should be examined by the Board.

4677. Have you any objection if the Industrial Bank took term or time deposits from the public, say, for three months, six months, one year or two years?—I am afraid I cannot express a definite opinion on that subject.

4678. *Mr. Ramdas Pantulu*: Some witnesses have suggested that the Industrial Bank might float debentures for the supply of working capital to industrial concerns and that it would help the concerns considerably if Government guaranteed the payment of interest. Are you in favour of that view?—I am not in favour of issuing debentures for the working capital.

4679. Are you in favour of giving 4 or 5 years' loans?—The Board of the Industrial Bank should be sufficiently capable of dealing with such questions. I do not think it will be desirable to put down the limit in the constitution of the bank.

4680. *Chairman*: Am I correct in assuming that your intention is that the resources of your proposed bank should consist of its share capital, that the interest on those shares should be guaranteed by Government for a period of 10 to 15 years and that the debentures which it issues in the market and in regard to which there will be no guaranteeing of interest by Government should be discounted with the Central Reserve Bank?—That is so, Sir.

4681. Will there be any restrictions with regard to loans to any particular concern and the nature of the security?—The loan should not exceed

one-third of the block account, and the security should be the block account.

4682. *Mr. Devadhar*: Will your proposed Industrial Bank assist a new industry if one is started?—There ought to be an expert on the board of the industrial bank who should be able to advise whether it is safe to help a particular industry.

4683. To what extent should the bank advance money and on what security?—That I should leave to the Board of Directors; you might put down 5 or 10 lakhs as the limit.

4684. *Chairman*: Now, you are a businessman; do you really think that 5 or 10 lakhs would be enough for any industry?—I am not referring to big industries such as, for instance, the Steel Industry which requires several crores. Our idea is that if the industrial bank were to start many small industries, it would help the country much better than if it assisted big industries.

4685. Therefore, you would confine your assistance to small industries and you would not grant more than 10 lakhs to any individual concern, to be given only when the bank authorities considered that the security was tangible.

4686. *Mr. Khaitan*: Is it your idea that the Industrial Bank should, provided other conditions are satisfied, advance the whole of the money required by the industry or would you insist that the promoters of the industry should find a certain proportion of the capital required?—Certainly.

4687. Would you in that case provide that the Industrial Bank should assist to the extent of one-third of the capital?—In the case of new industries, two-thirds should be found by the industrial bank and one-third contributed by the promoters.

4688. *Mr. Devadhar*: In your scheme of the industrial development of the country, where will you accommodate cottage industries?—My whole point is that small industries should be started, helped and encouraged rather than big industries.

4689. Do you think that industries requiring 5 or 10 lakhs are small industries?—I said up to 10 lakhs.

4690. *Chairman*: Is it your intention that the industrial bank should be a provincial bank?—No, it should be an All-India Industrial Bank.

4691. Let us assume that you have an all-India bank which raises 5 crores of rupees by share capital and which gets a couple of crores from Ahmedabad. You have no objection to this sum being used for starting some industries, say, in the Madras Presidency? But once these concerns manufacture products, you would object to money being transferred from Ahmedabad to, say, Coimbatore for the movement of finished articles to the place where they may be required for sale. Is that your proposition?—No. If the capital of the industrial bank is subscribed by Ahmedabad, it does so on its own merits, while the case of banks taking deposits side by side with mills stands on a different ground altogether. Take the case of jute mills in Calcutta; they are giving a very good return on the investment of shares. Ahmedabad has invested something like a crore of rupees in jute, because the return which investors get is much better than that which they would have got by investing their money in Ahmedabad. No

one could take the least objection to such a proposition and therefore I have not the least hesitation in saying that if monies are drained away in the subscription of the industrial bank there could not be any legitimate ground for complaint. The mills take deposits at a particular rate, the banks come in and take deposits at a particular rate, only instead of helping the local industry, they take away the money.

4692. Did I understand you correctly to say that large sums of money are being invested by people in Ahmedabad in jute mills in Bengal?—About three years back, when people in Ahmedabad found that the returns they could get from the jute mills share dividends were higher than what they were getting from the cotton mills, they sold off their holdings in the cotton mills and invested in the jute mills. It is a recent development.

4693. That is done by the people themselves out of their own volition and not by the banks through deposits which they receive from the public.—That is so.

4694. That makes it difficult for me to reconcile the answers which you previously gave in reply to a question from Mr. Devadhar. The capitalists in Ahmedabad are investing money in the jute mills in Calcutta and not investing that money for the development of industries in Ahmedabad itself, though you told us a little while ago that there was great demand for fresh capital for the development of new industries in Ahmedabad.—Such things will always happen; when economic forces are working, nobody can stop them.

4695. Therefore, when you talk about the action of banks, the real point is that it is the economic force. If a particular investor wants to invest his money in a concern outside Ahmedabad, or for the matter of that deposit in a bank, nothing can stop him from exercising his discretion in the matter?—That is so, but so far as the deposits are concerned, the investment is the same, but here it is different. There are different classes of investors, one class who will always invest their money in deposits, another who will take risk in investing money in industrial concerns, and a third class who will always invest in Government securities.

4696. Still the fact remains that this particular class of people are depositing their money in banks, and some other class in Ahmedabad are investing their money in jute mills in Calcutta and in both cases they do it in preference to investing their money in new industries in Ahmedabad.—Yes.

4697. That depends on their personal inclinations in the matter?—That is so.

4698. This transfer of capital from Ahmedabad cannot in any case be put at the door of the banks?

4699. *Mr. Devadhar*: My question was why this money should not be available for the extension of the development of industries.—In almost all new industries the return on capital is always very small in the beginning and if there are no chances of investing outside the district or town where there are facilities to do so, nobody will go and invest outside.

4700. In the initial stages they must always make some sacrifice or be content with a smaller return.—But you cannot expect the small investors to invest their money at a lower yield in local industries merely for starting them.

4701. *Chairman*: I put it to you then that if circumstances are as you have told us, this idea of an industrial bank is going to lead to this: that the tax-payer as a whole has to find money for these new industries, people will not put their money in them, because they can get better return from some other industry. Therefore somebody else has to meet the loss and according to your scheme, the loss will fall on the tax-payer of the country in general?—Yes.

4702. *Mr. Khaitan*: Do you think that would be to the greater good of the country?—Quite so.

4703. *Dr. Hyder*: Am I correct in assuming that you said in answer to the Chairman that you were for an all-India industrial bank?—Yes.

4704. You also told him that you would like the industrial bank to finance new industries of small kinds to the extent of roughly five lakhs?—I meant to say that instead of investing very large blocks in one industry, the policy that should be followed by the industrial bank should be to encourage the small industries as best as it could. That did not mean that they should restrict themselves merely to new or small industries.

4705. In so far as you have the development of small industries in the various provinces of India at heart, do you not think it would perhaps be better to have independent units of such banks in each province?—The industrial bank will have to open out its branches in different centres.

4706. Perhaps I have not made myself clear. You are really for having a central industrial bank with branches in the provinces. I put to you the other position, *viz.*, whether independent provincial industrial banks would not be in a better position to know the extent of the industrial development available in a province and so be in a better position to finance the small industries together with other large industries?—I cannot say, because I feel that only a central bank can know the different conditions existing in different parts of the country. Take for instance the cotton industry. If it be merely a provincial industrial bank for Bombay, it may not know what chances it has for development in Madras or in the Punjab. If there be a central organisation, it may be able to take a proper all-India view and instead of trying to develop at one centre, it may develop in Madras or the Punjab and therefore it is very essential that it should be a central body and not a provincial one. A particular industry may be successful for the time being in a particular province, but that does not mean that it would be successful for all time to come as has happened in America. There are two centres in America, one of which is affected seriously on account of competition from the other; the latter being in the cotton area has been able to manufacture and market its goods at a much cheaper price than the centre which is not so favourably situated. Even taking for instance the cotton industry which is an established industry in India, my view is that if it were to be developed in Madras or the Punjab, it will certainly bring down the Bombay industry, because it will get cotton at its door, cheap labour, marketing, etc., on the spot.

4707. Would that not be a desirable development?—Exactly, it would be a desirable development and therefore it should be a central body, so that the strings of all the centres may be in one hand.

4708. *Chairman*: When you first replied to Dr. Hyder, I thought that your main object was that the central body would be able to assess the possibilities in various parts with due regard to the fact that there may not

be any competition among the banks at the various centres. Supposing the opening of new cotton mills in the province of Madras or the province of Punjab has the effect of further depressing the cotton mill industry of Bombay or Ahmedabad, would that be a consideration for the central bank not to help the establishment of cotton mills in Madras and the Punjab?—No.

4709. If that is so, I do not see the advantage of a central bank. According to what you say, the bank will be largely under State control, because it is the tax-payers' money which comes into play largely in the operations of the bank. If there is a separate provincial bank at Madras, those in charge of that bank, including the people representing the Government of Madras, would be able to say whether from the point of view of the mill itself it is a working proposition or not. They will not be so much guided by ideas of competition of the mill at Bombay. On the other hand, if it were a central bank, the idea of preventing such competition is bound to loom large in the mind of the central bank. What would you say to that criticism?—The view to be taken by the central bank should, in my opinion, be to have industries established in particular centres for the greater good of the country. I do not suppose for a minute that the authorities of the bank would take a narrow view of provincial advancement in preference to the development of industries in centres where it is desirable and where it will be very economic to develop industries.

4710. In fact, how would the central bank apply what I may call a corrective remedy? You probably know that under the constitution as it stands to-day the development of industries is a provincial subject. Therefore it is the provincial Government which will have a large say in the matter, but if the Central Government is to have a large say in the matter, the subject will have to be immediately brought under central control. Have you thought about that aspect of the question?—No.

4711. *Mr. Manu Subedar*: Do you know that in the cement industry, for some time there were more factories and the output was too much? Many more places were prospected than were really necessary. If the industry had been an all-India concern, it would have seen to it that there was no waste. What is your view about it?—That has been my point, that if it is found desirable to develop a particular industry in a particular province, it should be done if it would be for the greater good of the country. Taking for instance the paper industry, if it is found desirable that this industry should be developed in the Punjab instead of in Madras, it can only be a central body which can take that view and establish the industry in the Punjab instead of doing it at any other centre.

4712. *Chairman*: Pursuing the question of over-production, will the position in any way be affected whether the industrial bank which offers assistance to the industry is in Madras or whether it is a central bank? Will not the bank in Madras, when it tries to assist the industry, itself take into account the question of over-production?—It would.

4713. Then as a matter of fact there is no difficulty in the bank being a provincial one, whereas, as I have already pointed out, the creation of an all-India central bank may lead to other difficulties from the constitutional point of view, particularly as your main object is assistance in the creation of smaller industries, not so much the big industries like cotton or iron.

4714. *Mr. Ramdas Pantulu*: It seems to me that if there is an all-India industrial bank its stability will be better ensured than if the bank were a provincial one. For instance, if there be a provincial bank in Bombay and if there is depression in the cotton industry, it is likely to affect the industry seriously and its shares and debentures will depreciate in value. If it be an all-India bank and if there is depression in one industry in a place (Ahmedabad may be prospering while Bombay is suffering), there are other industries like jute in Calcutta, leather in Madras, etc., and therefore the all-India bank is not likely to be affected to the same extent as a provincial bank might be. It might be able to sustain itself better because it will have all-India resources and prospects of developing industries in various other provinces and the chances of its being affected by industrial depression would be smaller. What do you say to this?—I do not think your basis is a correct one. Even if it is a provincial bank, it is not going to invest all its funds in a particular industry. It will be distributing the funds among several industries. In this respect, the position of the bank will be the same, whether it is a central industrial bank or a provincial bank.

4715. In most provinces a particular industry predominates, *e.g.*, the cotton industry in Bombay.—The industrial bank is not going to be established in order to help an industry which is already established.

4716. *Chairman*: The point made by the witness is that the industrial bank is not intended to foster large industries like cotton, its main object being to develop the smaller industries. So the point which you raised does not arise.

4717. *Mr. Ramdas Pantulu*: Do you contemplate branches being established of the all-India bank in provinces?—I do.

4718. The constitutional difficulty does not appear to me to be real, because each provincial Government can contribute its own quota under the State Aid to Industries Act or some other provision to the particular industries in its own province through the branch of the industrial bank operating there.—I have not considered that point of view.

4719. *Chairman*: The bank which the Millowners' Association contemplates would be largely a bank which will have to depend on the tax-payer and if it is the central tax-payer, the control should pass into the Central Government's hands, which will be responsible for the bank and for the grant of a subsidy at the expense of the tax-payer.

4720. *Mr. Ramdas Pantulu*: There will be no impediment in the way of provincial Governments making an advance from their reserves for the development of small industries through the branch of the all-India bank in the province.

4721. *Chairman*: The provincial Government may certainly place at the disposal of the bank a certain sum of money, but according to the proposals put forward, it is the central bank which will decide whether that money is to be spent in the province of Madras or in the province of Punjab. If the provincial Government is not definite about spending the money in its own province, I have no doubt that the Legislature will object to voting the grant.

4722. *Mr. Ramdas Pantulu*: May I know whether there is any statutory impediment for the provincial Government earmarking the money to be spent on the industries in the province?

4723. *Chairman*: That would clash with the scheme put forward. Supposing it is intended to start a match factory in Madras and even if the Madras Government were to say that they would make two or three lakhs available for the purpose, it would be the central bank to decide whether it would be profitable from the all-India point of view to start the factory in the Madras Province or in the Punjab. That being so, and if they decide to start it in the Punjab, once the money is handed over to the central bank, obviously it would be used for development in the Punjab.

4724. *Mr. Ramdas Pantulu*: Are there not supplementary sources of grants available for provincial Governments?—*I* do not see any inconsistency in it.

4725. *Chairman*: There is no inconsistency, but there is no control by the central bank. Supposing a province says that a particular industry is to be started at a place in that province and the central bank finds that it is better to start it in another province, the industry will be started in the other province. Once they relax the control, it cuts at the root of the central idea. It only comes to this, that there should be provincial banks which would establish industries in a province from money which the Government of the province provides and the central industrial bank can thereafter provide industries in any other province with the help of the money which the Central Government gives. That will bring in further complication, *viz.*, that certain industries will have to be centralised, while certain others of the same type will remain provincial.

4726. *Mr. Devadhar*: In discussing the evolution of the industrial bank, have you ever thought of bringing about a federated institution?—We have not considered it.

4727. *Mr. Khaitan*: In advocating a central bank you considered that industries of a certain character, *e.g.*, oil, sugar and cotton, are not confined to one province, but that they are capable of being developed in various provinces? According to your suggestion it will be necessary for the industrial bank from time to time to have expert knowledge about the conditions of various industries and of the details required for particular industries. Would it not be costlier for a provincial bank to maintain expert advisers in respect of each particular industry than for the central bank, having that expert knowledge under its control, to give it to each province when required?—I think it desirable to call upon expert advice whenever and wherever it is necessary, instead of maintaining a permanent staff which would be too costly, *e.g.*, if the sugar industry is to be started in a certain province, an expert may be employed for a certain period on a certain honorarium.

4728. You have already admitted that it would be desirable for the industrial bank to sell debentures. If provincial banks are started each, say, with a capital of Rs. 20, Rs. 25, or Rs. 50 lakhs, would not the extent to which they would sell debentures be much smaller than if they were sold by a much bigger central bank?—Yes.

4729. Do you not think that the amount of debentures which the industrial bank would be able to sell would have some reference to the amount of capital and reserve of the central bank? If the industrial bank has a capital, say, of 3 crores and a reserve of 2 crores, that will be taken by the buyer of debentures issued by the central bank as a margin of safety. Therefore if the Central Bank has 50 crores, it will have greater solidarity

behind it and be able to sell debentures at a much cheaper rate and advance money at a cheaper rate, which will mean better facilities for industrial concerns?—That is so. As a matter of fact, my Association has only contemplated a central organisation in respect of the industrial bank and not a provincial bank.

4730. *Mr. Manu Subedar*: The object of the industrial bank is expansion of industries?—That is so.

4731. And not displacement?—Certainly not.

4732. That is to say, if there was a provincial bank working in the Bombay Presidency and if it found it profitable to have a couple of jute mills established in Bombay when a couple of jute mills were closed down in Calcutta, you would not say there is no advantage?—No.

4733. You would, therefore, favour a central organisation?—Yes. I want to make one thing clear. Our idea has not been merely to restrict the activities of the industrial bank to the starting of small industries. Our idea is that industrial banks should also undertake to assist the industries which have been established if funds are sufficient and if the Board of Directors of the central bank finds the security to be satisfactory.

4734. *Chairman*: But it is not your intention that the industrial bank which you contemplate should help in the starting of large industries in new concerns?—No.

4735. You stated that it was not your intention that the central bank should itself maintain experts and that when it wanted expert assistance it will get it from outside by giving fees. Where does the saving of expenditure come in? If a provincial bank similarly wanted to explore whether the establishment of a match factory, say in Coimbatore, was going to be advantageous or not, it might call in an outside expert and give him an honorarium. Whether the central bank does it, or the provincial bank does it there will be no difference in expense?—I submit that the difference will be in this way; if provincial industrial banks were to be established, different rates of fees will have to be paid, because conditions obtaining in different provinces are not the same.

4736. *Mr. Khaitan*: Is it not cheaper for a bank to get expert advice if it requires that advice very frequently?—If it requires it constantly, it will have to engage an expert on its staff.

4737. Suppose the central industrial bank requires advice, say, in regard to the sugar industry. If it requires such kind of advice, say 6 times in the year, would it not be able to obtain that advice at a much cheaper rate than a provincial bank which may not require such advice more than once in two or three years?—That contingency will not arise, because it is not possible that on a particular industry any provincial or central organisation will require the services of an expert half a dozen times. It will only be required in the initial stages, the industry being left to the promoter thereafter to be run.

4738. I did not mean that such advice would be required in respect of one concern only. Suppose there is a central bank and the promoter of the sugar industry in Bombay once requires assistance from the bank. Then the promoter of a sugar mill in the United Provinces requires assistance, then a sugar mill in Bihar applies for the assistance. In this way the central bank will be called upon to give advice more frequently and

therefore it can obtain it at cheaper terms than a provincial bank which may require such advice very rarely in respect of the same kind of industry.—Yes.

4739. *Chairman*: You know conditions in India are very varied and divergent. Supposing for such expert advice you appoint a man and let us assume he knows the conditions of only his province. If he is sent to another province and after going there, without knowing the local conditions he rules out a sugar factory, what will happen when the organisers make a hue and cry?—After all experts are experts and their views should be considered as final.

4740. For that matter, the Bombay Banking Committee has suggested that this Committee should formulate a scheme for starting an industrial bank for the province with branches where necessary, the larger industries being financed by the proposed industrial bank and the smaller by its branches. Dr. Hyder quoted the other day a statement from the Bihar Report where the people are even said to accuse the Imperial Bank for partiality in regard to this matter.

4741. Now, then, with regard to the issue of debentures you say that if debentures are issued by provincial banks they will have to pay a higher rate of interest than it would be the case if it had been an all-India bank. I might quote an example. If people in Madras know that if particular debentures sold there were to be utilised for development of industries in Bihar, it would not be attractive to them at all. Do you not think so?—I do not say it will be very attractive.

4742. However, I will leave your suggestion at that as you say that your Association have not fully considered this question looking at from all points of view?—That is so.

4743. But supposing you had an all-India Industrial Bank, would you tell us what should, in your opinion, be the initial capital of the bank?—Rs. 3 to 5 crores.

4744. And this amount you say would be required to finance the existing industries and for the establishment of small industries?—Yes.

4745. You state that as the exchange banks have practically the monopoly of foreign trade, they charge arbitrary rates of interest and exchange charges for negotiating drafts to and from India. Will you kindly explain what rates of interest you refer to and will you also kindly indicate the arbitrary character of the exchange charges?—As far as the rate of interest is concerned they used to charge 7 per cent, although they have recently reduced the rate to 6 per cent. When a bill is drawn from London on a Bombay Company the rate at which we have got to pay will be about 1*s*. 5$\frac{1}{8}$*d*. If we were to purchase the exchange and pay it into the bank, we may be able to do it at 1*s*. 6*d*. That is what often happens. At least there is a difference of 1/16 to 1/8. It may not be so at the present moment, but I am quite prepared to give specific instances where this difference has been charged by the exchange banks.

4746. *Mr. Buckley*: As for myself, to tell you honestly, I am sorry I am unable to follow your line of argument. I shall be thankful if you will kindly furnish us a list of specific instances to which you refer.

4747. *Chairman*: Would there be any difficulty for your Association to communicate to us confidentially, as other witnesses have done, a list giving specific instances to which you refer, so that we can pursue the

matter confidentially with the proper quarters?—Yes, we shall be glad to do so.

4748. You further state that when the discount rates of interest of the Bank of England may be very low, the rate of interest charged by exchange banks on drafts continues to be high, usually 7 per cent. We have been told that the usual rate is 6 per cent. Is that not your experience? Do you consider a uniform rate of 6 per cent. to be excessive?—As I stated 7 per cent. was in vogue. I do not know how long it was in vogue but a few months back it has been put down to 6 per cent. When the Bank of England rate was 6 per cent. drafts were negotiated at 7 per cent. interest.

4749. *Mr. Buckley*: I am sure you must have been misinformed in regard to this.—I can say that is my own experience. My own firm has paid at that rate.

4750. Will you kindly let us have details about this instance as well?—Yes, I shall send it on.

4751. *Mr. Sarkar*: Is it your point that foreign English export firm will be able to take a loan from an English bank at 4 or 5 per cent. interest, while an Indian will have to pay 6 or 7 per cent.?—Yes, that is so.

4752. *Chairman*: But that discrimination only holds good in the case of firms having London offices who can get money from the Bank of England. Is that not so?—Most of the exporting firms from England take a loan from the English banks at cheaper rates, but here in this country, same of us on whom the English firms draw the drafts, are called upon to pay a higher rate of interest.

4753. In this matter do the exchange banks make any discrimination between their English customers and Indian customers?—If a draft is drawn then there would not be any difference in the treatment, but the difference comes in if the English house take a loan and then send out the goods to England, because it will be cheaper for them then.

4754. You state that you are in favour of licensing foreign banks. Have you any suggestions to make with regard to the regulations that should be prescribed for governing the operations of such banks?—My Association is in favour of licensing foreign banks. They should be called upon to have an Indian directorate in India, their balance sheets should be published in India in terms of rupees, there should be a restriction on their obtaining deposits from India and they should be asked to bring in money from abroad for their trade in India.

4755. You say that they should have a Board of Indian directors in India. Are you referring to an Advisory Board?—I would not mind even if it is an Advisory Board.

4756. Then as regards restrictions on their deposits. What sort of restrictions do you want to impose on them?—Looking to their turnover in India I understand that they are able to attract about 70 to 75 crores of rupees from this country. Out of this amount hardly 10 per cent. must be going to assist India's trade and industries as such. Most of the money they use in the financing of foreign trade which is mostly in the hands of foreigners. I want that they should be asked to finance the foreign trade if they cared with their own money and not with the money which they are able to attract from this country in the form of deposits.

4757. You said a little while ago that the question of depositing one's money rests on the choice of the person who wants to deposit. That being

so, you now say that some restriction should be placed on the foreign banks accepting deposits in this country. Would you therefore by legislation take away the inherent right from an individual in regard to his right of depositing his money in any bank he likes?—Yes, in order to make India self-supporting certain restrictions have to be placed on various classes of people.

4758. As matters stand at present India's foreign trade is mostly in the hands of foreigners. Then how would you provide for the financing of that portion of India's trade?—Well, the banks must be able to find their resources from outside the country if they wish to continue their foreign operations in this country.

4759. Therefore, your view is that if these restrictions were imposed on these people, they will bring in foreign capital for the purpose of financing that part of India's export trade which is now in the hands of non-Indians?—Yes. My point is that if the foreign banks are prohibited from taking deposits in this country that money will go to the improvement of the trade, industry, and commerce of this country.

4760. After placing the restriction of Indian depositors as regards depositing their funds in foreign banks, you would give a free choice to these people to invest their money in other Indian banks or allow it to go into hoards. Is that so?—I am confident that the money will not go into hoards. Those who deposit their money with the exchange banks at present do so only with a view to earning at least some interest.

4761. *Mr. Manu Subedar*: Is it your intention that the foreign banks operating in this country should keep separate accounts of their operations in this country and should publish their balance sheets so far as their operations in this country are concerned?—That is my view.

4762. You know these foreign banks have branches in several parts of the world and the assets and liabilities of all their branches are clubbed together in arriving at their balance sheet. Supposing a crash occurred, as it did in the case of a Japanese bank a few years ago as a result of which most of the Indian depositors suffered, do you not think that even if you provide for a separate balance sheet being published in India, it will prove to be of no avail in protecting the interests of Indian depositors?—In their balance sheet which they publish in this country, I take it that they will publish their total subscribed capital and their reserve fund as well to enable the Indian depositors to assess their worth.

4763. Would you then give freedom to a company, which is registered in India with rupee capital with Indian shareholders, to accept deposits in this country and do all banking business including exchange business?—Yes, they can very well do so if they are registered under the Indian Companies Act.

4764. *Chairman*: Would you also restrict the Indians from purchasing foreign securities?—I would not.

4765. Therefore, can you tell me why you propose to prevent him by law from depositing his money in exchange banks when you propose to place no restriction on his investments in foreign securities?—The deposits which he makes in foreign banks are only for short periods while an investment in securities is in the nature of a permanent investment.

4766. You state that the prospects in India for Indian boys qualified and trained in banking are very poor at present. There are the Imperial Bank

with its branches and several joint stock banks and their branches. Would they not afford sufficient prospects for qualified Indian youths?—They do not do so at present.

4767. Do you mean to say that even Indian joint stock banks do not do so?—After all, there are only very few banks in India and there are a very large number of youths in this country. Unless banking is developed, the existing banks will be insufficient to provide adequate facilities.

4768. The Imperial Bank of India is giving the facilities?—Yes. But unfortunately the position is this that Europeans being at the head of the bank, the chances for advancement of Indians are very poor.

4769. Are you referring to Indian joint stock banks or the Imperial Bank?—I am talking of both. What I say is that there should be efficiency bars put in the matter of promotion of officers. I understand at present promotions are merely guided by the length of service that an officer has put in. As for the Imperial Bank, the expenditure is top-heavy and this could be improved by Indianisation.

4770. *Mr. Lamond*: Are you aware that out of 189 offices and sub-offices in the Imperial Bank 95 are in charge of Indians?

4771. *Chairman*: If Indianisation is to be started you must admit that it must be a gradual process and cannot be done all of a sudden?—But it should not be done at a snail's pace.

4772. If during the last ten years' time the Imperial Bank has Indianised nearly 50 per cent. of its officers, do you call it a snail's pace?—What I say is that there should be a definite scheme when Indianisation will be completed.

4773. *Mr. Lamond*: You know it takes a long time to train up bank managers?—I should be satisfied if within the next ten years Indianisation is made complete.

4774. *Chairman*: You state that the cost of management can be reduced by Indianisation. I suppose you refer to the cost of management of the Imperial Bank. Have you any information as regards the cost of management of Indian joint stock banks and how it compares with the cost of the Imperial Bank?—I have no information regarding the comparative cost of the Indian joint stock banks and the Imperial Bank, but I do know that the cost of management is pretty high due to very high salaries that are paid to European officers. In certain cases Rs. 5,000 and even Rs. 6,000 are paid to Bank managers per month.

4775. Is it so only in the case of the Imperial Bank?—No, it is the case with both Indian joint stock banks and the Imperial Bank.

4776. And you know that the same high salaries are paid to Indian managers of Indian joint stock banks?—Yes, that is so.

4777. Therefore, you admit that by pure Indianisation you will not be able to bring down the scale of salaries?—Why not? At present high salaries are paid simply because more qualified men are not available, but when more Indians are trained for responsible posts, the existing salaries can be cut down by one-half or even one-third.

4778. *Seth Haji Abdoola Haroon*: How is it that Indians and Europeans are getting the same pay in the I. C. S.?—India cannot afford to pay such high salaries as are paid now. If Indianisation proceeds apace, then it will automatically be able to reduce these high salaries very considerably.

4779. *Chairman*: You state that the rates of interest on advances can be reduced by discriminate and steady policy of Government borrowing both in India and in England. Will you kindly explain how such a policy will bring down the rates of interest and will you also tell us whether in your opinion Government borrowing is the sole factor regulating the rates of interest in the money market?—It is not the sole factor regulating the rate of interest in the money market; but our contention is that it is one of the main factors.

4780. You state that the Imperial Bank of India has been of little or no use in financing the local industry. I presume you refer to the cotton mill industry in Ahmedabad?—Yes.

Am I to understand that none of the mills in Ahmedabad receives advances from the bank for current expenses?—Very few.

4781. Have there been many cases in which they approached the Imperial Bank and were refused accommodation?—No.

4782. Later, you state that the Imperial Bank should continue to receive some assistance from Government in order to enable it to continue its work and increase the net work of branches in the country. I take it that you are one of those who believe that the effect of the policy of Government in having asked the Bank to open branches in different parts of the country has been to enable it to render an important service to the community and that you therefore propose an extension of such work. It has been suggested that instead of allowing the Imperial Bank to open additional branches it should be asked to appoint indigenous shroffs as agents in places where the need of a branch is felt. Will you kindly give us your views on this proposal?—We are one of those who believe that the opening of the branches of the Imperial Bank at various centres, even though it may not have rendered very important service to the community, has been of some indirect advantage to the country. Therefore, in our opinion it will be desirable to extend the net-work of the branches of the Imperial Bank. There are certain centres where it has been found by the Imperial Bank that the opening of branches does not pay. In such cases appointing indigenous shroffs as agents will be helpful.

4783. *Mr. Devadhar*: There are some people who think that the Imperial Bank should not be given facilities for opening more branches?—We are not, as I have already stated, one of those who advocate that policy.

4784. Would you have any objection to the opening of branches of indigenous banks where there are no branches of the Imperial Bank?—They are at liberty to do that if they choose to do so.

4785. If, in a place where there is already a branch of an indigenous bank or an Indian joint stock bank the Imperial Bank wish to open a branch, would you still insist on facilities being given to the Imperial Bank's shroffs?—Yes, it will be helpful. Moreover, it has been our experience that what the Imperial Bank of India has been able to do in certain cases other joint stock banks have not been able to do. Therefore, we think, that it will be desirable to have branches or agents of the Imperial Bank, wherever it is possible to do so.

4786. If a branch of an Indian joint stock bank or the provincial co-operative bank in a particular place is not able to do the work, do you think that a shroff as an agent of the Imperial Bank will be able to do it?—We think he will be able to do more and better work because of the strong support he will have from the Imperial Bank.

4787. *Mr. Ramdas Pantulu*: It has been suggested to us that the development of indigenous joint stock banks by opening branches and extending the business will practically become impossible if the Imperial Bank is allowed to open its branches in centres where there are already well established and well organised joint stock banks, because the Imperial Bank's resources are greater and it has cheaper money?—I do not think so; my experience has been that the joint stock banks have successfully conducted their business side by side with the Imperial Bank.

4788. If both the Imperial Bank and another joint stock bank have branches in the same place, can the joint stock bank branch stand the competition?—In my district of Ahmedabad at least our experience has been that joint stock banks have been able to stand the competition very well; and in my knowledge, in other centres too they have flourished.

FIFTEENTH DAY.

11th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. D. P. KHAITAN.	Mr. W. LAMOND.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. G. K. DEVADHAR, C.I.E.
Sir HUGH COCKE, KT.	Choudhri MUKHTAR SINGH.
Dr. L. K. HYDER.	Mr. NALINI RANJAN SARKAR.
Mr. V. RAMDAS PANTULU.	Seth HAJI ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Rai Sahib Mihir Nath Roy representative and Managing Director of the **Bihar and Orissa Provincial Co-operative Bank, Ltd.**, was examined.

4789. *Chairman*: You state that there is no co-ordination amongst the various credit agencies including Government and no suitable links between the urban and rural agencies and between the urban and central money markets for agencies other than co-operative credit. Will you indicate a little more clearly the defects in the present arrangements and suggest how the co-ordination of the various agencies can be secured?—We have three different agencies, the provincial bank, the Imperial Bank and joint stock banks and the (village) mahajan. We think that all these three act independently one of the other and there is no co-ordination among them such as would be desirable, and we claim co-operative credit, being the only organised system of rural credit, could co-ordinate the other agencies.

Have you any suggestions as to how the co-ordination of the various agencies can be secured?—For instance something can be done in that direction if our "paper," such as promissory notes which we receive from the Central Banks, is discounted by the Imperial Bank. That would greatly help the co-operative movement.

4790. Apart from the Imperial Bank on which the Government has got a certain amount of control, you say it is not possible for Government to take any action to secure better co-ordination among other agencies?—That is so at present. But we believe that if the Imperial Bank were to show us some consideration in the matter of discounting our paper, and give us other facilities, the other joint stock banks will also help us. As it is, as our Committee say, the part the Imperial Bank plays in financing the Agricultural section is insignificant.

4791. If the Imperial Bank shows you certain favours, what is the precise nature of the advantage which this liberal treatment on the part

of the Imperial Bank will confer on the co-operative movement?—Currency will pass from one hand to the other much quicker, and bring more fluid resources at our command.

4792. How will it help the development of the co-operative movement?—Take for instance agriculture which is the biggest trade so far as Bihar and Orissa is concerned. Unfortunately it is not remunerative because of the want of fluidity of paper, fluidity such as other trades enjoy.

4793. You have got some class of paper which I believe is your pronote. Supposing the Imperial Bank discounted your promissory notes, how would that help the ryot in the matter either of production of his crops or in the matter of the movement of the produce?—The ryot would get money cheaper because of the fluidity of the paper. It would make a larger volume of currency available for the purpose.

4794. Is there any dearth of money in the co-operative movement, say, in Bihar and Orissa at the present time? Have they not actually got surplus funds?—I do not think we in Bihar have got any surplus funds; there used to be formerly, but not now.

4795. You say that the cash credit facilities given to the co-operative banks against demand promissory notes of co-operative banks are totally inadequate for an important industry like agriculture and that these facilities have been recently curtailed instead of being extended. Will you kindly tell us whether the limits originally sanctioned have been reduced because the sanctioned limits were not drawn upon?—No, they have not been curtailed. The limits are already inadequate and if they are cut down, we will be greatly handicapped. Only three lakhs are allowed on promissory notes.

4796. The total amount apparently allowed by the Imperial Bank in the case of Bihar and Orissa was firstly, a cash credit of 4 lakhs against guaranteed shares, secondly a cash credit of 3 lakhs against promissory notes of central banks and thirdly, an overdraft account of Rs. 2,85,000.—Yes.

4797. *Mr. Lamond*: With 5 per cent. margin?—Yes, on the securities pledged.

Chairman: Then they have only withdrawn the concession rate of half per cent. below the bank rate?—Yes.

4798. This withdrawal cannot in any way affect the resources at the disposal of the provincial co-operative banks.—To a certain extent, it does, for depending on this half a per cent., we have been allowing the guarantee shareholders half a per cent. on undrawn amounts, and we make this up by the amount we were getting from the Imperial Bank. Secondly, hoping that we could get money always at rates below the bank rate, we have been trying to put down our rates of interest to depositors.

4799. This has not reduced the resources at your disposal. It may have reduced your profits and therefore it may have reduced your ability to reduce the rate of interest you charge on your advances. But there has been no curtailment in the amount of the accommodation which the Imperial Bank has been giving you and therefore no reduction in the reserves at your disposal.

4800. *Mr. Ramdas Pantulu*: The point of the witness is that the existing arrangements are inadequate.

4801. *Chairman*: In what sense?—With the reserves we have, the Imperial Bank ought to help us very much more; they are helping us only to the extent of 3 lakhs so far as promissory notes are concerned. Our reserves and paid up share capital are 10 lakhs; I make a difference between promissory notes and other accounts. There are 3 accounts, one on the guarantee shareholders for which we get 4 lakhs; we get only 3 lakhs on promissory notes of central banks which we pass on to the Imperial Bank with our endorsement, and the third against pledging our own G. P. notes.

4802. You have not pledged G. P. notes in respect of the cash credit?—We have, *i.e.*, Rs. 2,85,000.

4803. You think the Imperial Bank ought to make larger resources available to you?—Yes, so far as the paper from the Central Bank is concerned.

4804. *Mr. Devadhar*: To what extent?—It might easily be anything from 10 to 20 lakhs.

4805. *Dr. Hyder*: When you speak of guarantee shareholders, do you refer to the big magnates?—Yes.

4806. Are they joint shareholders?—We call them guarantee shareholders, they are not shareholders in the ordinary sense.

4807. Do they come in from a sense of public duty?—More or less, but it brings them some money too. On their paid up share capital of 5 per cent. we pay a dividend of 6 per cent. and as regards the undrawn balance we pay them ½ per cent. commission. It is a sort of an insurance fee that we pay.

4808. *Mr. Lamond*: Is this for fluid reserves?—Yes.

4809. *Mr. Manu Subedar*: You said that your reserves were 10 lakhs, what do you mean by reserves?—The share capital, and the reserves, are our own money.

4810. So far as the co-operative movement as a whole is concerned, are you in a position to give security for all the resources of the movement to the Imperial Bank? You can only give security on your assets which I find from your balance sheet is 65 lakhs.—The Central banks give promissory notes to us, we pass them on to the Imperial Bank; the Central banks are also in it. The whole constitutes a corporate body.

4811. But they are not net reserves. Against your assets of 65 lakhs you have a liability of 53 lakhs. Therefore your net reserves, *i.e.*, your own reserves which would be available to the Imperial Bank in case of need are not 65 lakhs. The ten lakhs which you mentioned was the working capital of the movement, portion of which was probably reckoned over twice?—We have primary societies with unlimited liability and about 200 or 300 of these make up a central bank, *i.e.*, these are affiliated to the central bank. They purchase shares and we have about 65 or 67 central banks. Then at the top is the apex bank. All these are taken together as one whole.

4812. But are not the funds reckoned over twice? The primary society regards funds which it has got in the central bank as its own. The central bank regards the advances given to the primary society also as its own funds and the cash it has with the provincial bank is also reckoned over. —I am afraid yes; but every one of the central banks have their own share capital and reserves.

4813. Could you explain to us how the deposits from members bear such a small percentage?—That is one of the difficult questions which the co-operators have not yet been able to solve, because there is not that amount of habit of thrift among them as we wish to inculcate in the ordinary members.

4814. *Chairman*: You state that the margin between the rates at which the central banks borrow and lend is small and that the tendency is towards further decrease in this margin. I find from your memorandum that the lending rate of the provincial bank has been maintained by the provincial bank at 6 per cent. for the last three years. Will you kindly tell us at what rate the central banks lend to the primary societies?—The weighted average will come to a little over 11 per cent.

4815. What is the rate to cultivators?—It is between 12½ and 15 per cent.

4816. Do you think the margin of 6 to 9 per cent. a small one?—By no means, but they do not make that profit. Central Banks have many expenses, besides the management, to meet.

4817. Will you kindly give us some information regarding the rates of dividend declared recently by your bank and some of the central co-operative banks in your province?—So far as we are concerned, we pay a dividend of 6 per cent. *plus* a bonus of 2 per cent., *i.e.*, 8 per cent. The central banks give 6¼ to the ordinary society members who are shareholder and 9⅜ to the "preference" shareholders. The ordinary shareholders are the primary societies who borrow, and the members of these societies also purchase shares in the primary banks. The "Individual shareholders" are those individuals whose assistance is required as workers and they are called preference shareholders.

4818. You do not think you can reduce these rates of dividend and thereby reduce the gap between your borrowing rate and the rate which is ultimately charged to the agriculturist?—I do not think so personally. My bank thinks they are not big dividends, compared with other banking institutions.

4819. *Mr. Ramdas Pantulu*: About two years ago, I think your Provincial Co-operative Conference passed a resolution that you ought to reduce your lending rates. Have you given effect to it?—Yes, from 8 per cent. we have reduced the rate to 6 per cent.

4820. *Chairman*: When you did that, did the central banks also make a corresponding reduction in the lending rate?—They have been trying, but they have not yet fully done it.

4821. *Mr. Devadhar*: What is the current rate of interest which money-lenders charge to your members?—Anything between 22 to 36 per cent. and even 37½ in some cases. Since the co-operative movement has come into existence, their rates are decreasing.

4822. Would you not like to bring down the rates still further and make the credit more facile, so that there might be no inducement for further indebtedness. It is a charge levelled against us that we make money very cheap?—We have not yet made it very cheap.

4823. Even as it is, the co-operative movement has brought down the rates by nearly 50 per cent.—It has, in some cases.

4824. *Dr. Hyder*: Are your rates higher in the Chota Nagpur, lower in North Bihar and still lower in South Bihar?—Yes.

4825. You do not have the same uniform rate of lending to primary societies?—No.

4826. *Chairman*: You say that the efforts made at the co-operative marketing of agricultural produce in your province are still very limited and you advocate the extension of co-operative sales. Have you seen the views of the B. and O. Banking Enquiry Committee on the subject as given in para. 131 of their report? Have you any observations to make in regard to their views?—We have seen the views referred to. Unfortunately, we have not got much data to go upon. If it is a fact that the middleman makes only one anna on the maund, certainly co-operative sales would not be of much value, but we differ from the B. and O. Committee in this respect, considering that the middlemen are well-to-do people.

4827. The Bihar and Orissa Committee say that there have in fact been only two experiments in co-operative marketing of any importance in recent years, and both of these have been disastrous failures.—Unfortunately it is so; but we have only been dealing so far in grains, and not on any stuff which is available in large quantities for export.

4828. Some people have said that the present position of the Jute Sale Society in Bengal is due to its unbusiness-like methods.—Probably if we had tried *gur* or sugar, which are exported largely from Bihar, we would be on stronger grounds; so far we have been dealing in grain which has a local market.

4829. Have you seen the three reasons given by the B. and O. Committee for the success of co-operative sale societies? You have not commented on any of these reasons. Their recommendation is that "further experiments in them should not be taken in hand, unless and until there is a clear demand for them by producers themselves, after the dangers of sinking money in an attempt to compete with a well-organized system of marketing have been fully set forth before them." The reasons given for this are,

> "The success of these sale societies depends *firstly* on there being a margin between the lowest and highest price during the period for which the product can be stored, sufficient to cover warehousing, interest and management charges and still leave an attractive profit.
>
> *Secondly*, it depends on securing managers, who have the ability to judge accurately the course of prices and the character to resist and prevent speculation.
>
> *Thirdly*, the producers themselves must have a sense of loyalty to their sale society, strong enough to keep them from snatching chance opportunities of larger profits by selling elsewhere or from deserting the society on the first appearance of loss."

Have you anything to say on these three reasons?—They are certainly right. Unfortunately we have, in my opinion, followed the wrong principle up to now. If we had dealt with things which we could collect and export in large quantity, *e.g.*, *gur*, sugar, that is in commercial crops we would have succeeded. We do not export more than 6 per cent. outside the province food grains which is the only stuff we have dealt with so far.

4830. Would not these three difficulties apply to those articles also?—They would, but I suggest that they are not insurmountable.

4831. You admit the force of the three objections and in view of these objections the committee state that no further experiments should be made until there is a clear demand for them by producers themselves. Is it your opinion that such a clear demand exists at the present moment?—I have not got the data, but probably we could run it better. I think there is a demand.

4832. You have no precise information and therefore it is a mere expression of opinion. I wanted to find out from you whether you are in a position to rebut any of these objections from your personal experience?—I have no personal knowledge; all that I say is that the difficulties are not insurmountable.

4833. That is an expression of personal opinion. You must admit that we as a Committee must pay great attention to the recommendations of a Committee on which I find there was a representative of the agricultural classes.

4834. *Mr. Ramdas Pantulu*: When you say they are not insurmountable, I take it your answer is that you do not accept the recommendations of the Committee as they are.—I do not.

4835. I find that the Registrar of Co-operative Societies took a different view; he wanted sale societies and the Committee differed from the Registrar.—That is so, we agree mainly with the Registrar.

4836. With regard to the three reasons, first about the prices: do you not think that it is a fallacy to adopt as standard the price which the agriculturist gets in his weak, disorganized condition?—Yes.

4837. Secondly, with regard to the trained men with business capacity, that is an objection which applies to all sorts of enterprises, including joint stock banks.—Yes.

4838. If there are not enough trained men, the proper thing would be to secure them and the department should furnish trained inspectors to start sale societies and to instruct the co-operators how to run them?—That is so.

4839. Thirdly, about the sense of loyalty, it can be remedied by education and training.—Yes.

4840. *Chairman*: Let me read out to you what you said before the Bihar and Orissa Committee. You were asked 'Have you any experience of co-operative sale societies in this province?' You said you had no personal experience, but you understand that there was one at Fatwa which came to grief.

4841. Can you tell me why it came to grief?—They were dealing in grains only. It may be due to inefficient management also, but I do not know.

4842. You were then asked 'up to now has there been any successful co-operative sale society in this province?' Your answer was: 'I have not come across any myself. But I do not take a pessimistic view. If they are run on right lines they might be successful'. Then comes this 'Unfortunately we have to deal with small landholders and agriculturists who do not produce sufficient quantities for sale individually.'—That is so. I do not think I have taken up any contradictory position.

4843. In answer to me you said that your view was that it might be possible to start co-operative sale societies in the case of commercial crops,

but there are practically no commercial crops in Bihar and Orissa except sugar.—There are tobacco, chillies.

4844. You said that in the case of commercial crops only it might be possible to start co-operative sale societies successfully?—Yes, that is my opinion.

4845. *Chairman*: In answer to one of my colleagues you said that you agree with the views expressed by your Registrar of Co-operative Societies that these co-operative sale societies would be successful if organised on a large scale. That is a general statement and does not apply to commercial crops like tobacco, *gur*, etc. Is that so?—Yes. The Registrar's opinion is probably so.

4846. If it is possible to run co-operative sale societies at the present moment successfully in Bihar and Orissa in the case of certain classes of crops and if the Registrar is favourably disposed to that view how is it that your leaders in the Co-operative movement have not done so?—I think they are doing so now.

4847. They apparently started two sale societies and they came to grief?—Yes, that is so. But grain golas are working satisfactorily.

4848. I am not at present talking of grain golas. My point is how is it that an attempt on a large scale to start co-operative sale societies has not been made?—It is more than I can say, but they are probably waiting for a lead from the Committee.

4849. The establishment of co-operative sale societies does not really concern us except in the matter of finance. I think the Royal Commission on Agriculture did make a recommendation like that?—Yes.

4850. In answer to the Chairman of the Bihar and Orissa Banking Enquiry Committee you said that you were not aware of any co-operative sale society having worked successfully, and then you began to give your reasons.—Probably it is so.

4851. *Mr. Devadhar*: Do you not think that it is far better to run a co-operative sale society for the benefit of the common-folk and sell the goods at the cheapest possible price rather than ask a man to take up a share in a co-operative society for Rs. 10?—I entirely agree.

4852. Would you not therefore think that there is room for further education and further effort in regard to this?—Certainly.

4853. *Chairman*: I put these questions to you simply to elicit your view in the matter, because I find from the evidence of your Deputy Registrar of Co-operative Societies that there was one such sale society in Fatwa and it failed miserably and ever since no serious effort has been made to start sale societies?—Yes. Probably so.

4854. You advocate the formation of People's Banks on co-operative lines in all centres of petty trade and commerce. Am I correct in assuming that your intention is the development of central co-operative banks and co-operative credit societies?—We have referred to the starting of Peoples' Banks (as Wolfe calls them) on a co-operative basis. These banks are really intended for the benefit of small traders and artisans, they are really small urban banks.

4855. You suggest that the duties of auditors should be not only to examine the accounts of banks but also to appraise their financial position

and suggest the ways to improve it. Is there anything to prevent co-operative banks from obtaining such advice and opinion from their auditors? Do they ask for such advice?—At least in our province they are required to give the information and they do give the same. There are 7 or 8 questions on which the auditors are required to give the financial position of the banks clearly.

4856. Therefore is it your opinion that in regard to co-operative banks (Central and primary) nothing further need be done?—Only so far as such advice is concerned.

4857. Do you propose that some similar arrangement should be extended to ordinary joint stock banks?—It would be much better and satisfactory if it is done.

4858. But you are not aware whether the ordinary joint stock banks also follow the same procedure?—I am not. There is nothing to prevent them from doing so, so far as I am aware.

4859. You state that if an all-India Auditors' Association could be organised and if the practice of audit is restricted to those auditors who are enrolled as members of this Association, some of the malpractices which have come to light will be checked. Will you kindly state what malpractices you refer to?—In writing this we had in mind the recent failures of banks like the Alliance Bank of Simla, the Bengal National Bank and others.

4860. You are of opinion that restrictions of the nature of those imposed on the Imperial Bank of India can with safety be imposed on a few commercial banks. Will you kindly explain which commercial banks you have in view and what restrictions you think can and should be imposed on such banks?—What we wished to convey is that restrictions of the nature imposed on the Imperial Bank under section 8 of the Imperial Bank of India Act can with safety be imposed only on some commercial banks. And our idea is not certainly to put these restrictions on all banks, but only where necessary. Our language probably was not quite happy.

4861. But then how can you make a discrimination only against a few banks when there is not a general rule?—I admit there will be difficulties in the way.

4862. Among the concessions which should in your opinion be granted to co-operative banks you mention exemption from income-tax on income derived from investment in Government securities. What would be your answer to the criticism of one of the Provincial Committees that it is not part of the business of co-operative societies to invest a great deal of their capital in interest-bearing securities and that if they do so they should like other investors be subjected to the deduction of income-tax from the return on such investments?—So far as I know it is our own Committee which has made such a criticism.

4863. But there are other Committees as well who have made such remarks.—I might first add that it is not an investment in the strict sense of the term. We are under the statute forced to purchase only Government and other trust securities to provide against fluid resources, although as a matter of fact we might be able to make more interest if we could invest them in income-tax free debentures of joint stock concerns. Therefore it is that we say that our income from the Government

securities should not be taxed. Secondly as in the Punjab, the bank may not make any profits at all but must pay the tax at the source. Then it is an anomaly when profits are not taxed that interests on these securities being profits should be taxed.

4864. But the law does not compel you to keep your fluid resources in any particular form. Does it?—They stipulate that the investment should be in one of the trust securities or Government promissory notes.

4865. *Mr. Devadhar*: Do you not think that the distinguishing feature of the co-operative movement is that its hall-mark is social service while joint stock banks are mere profit making concerns?—Certainly.

4866. *Mr. Lamond*: You say that it is not an easy matter to maintain adequate fluid resources in Government and Trust securities, as the yield on such securities is generally found to be more than one per cent. lower than the rates co-operative banks have to allow on their borrowed capital. Does that not mean that you are paying too high rates on your deposits?—No, we are not.

4867. Are you not getting large deposits from the public bodies?—We are not yet getting deposits from public bodies. In fact, that is one of our grievances.

4868. It has been suggested that interest derived from Government securities held as an investment of the reserve fund should be exempt from income-tax but not the interest on securities held for any other reason, for example temporary employment of funds during the slack season. Would that satisfy you?—It would not quite satisfy us. It follows as a corollary to the previous question which you put to me.

4869. You were required to maintain your fluid resources in a certain form of securities and therefore it is not fair to ask you to pay income-tax on the interest on those securities. If that is your contention then surely this proposal ought to satisfy you. But my point is why should you be exempt from income-tax if you buy other securities. If it is your practice to make other investments quite outside for the purpose of keeping a fluid reserve then you have not yet given us any reason why you should be exempt from income-tax on that?—With regard to the reserve fund it is obligatory on us to keep apart 25 per cent. of the gross profits to the reserve.

4870. But have you got to keep any other reserve fund in addition to the general reserve fund?—Of course we have to keep fluid resources.

Is it prescribed under the statute?—As bankers we have to.

4871. *Mr. Ramdas Pantulu*: Under the statute we have to set apart 25 per cent. of the gross profits for the reserve fund. The Registrars of Co-operative Societies issue circulars which are more or less binding on the Provincial Co-operative Banks that they should have fluid reserves according to prescribed standards—Yes.

4872. Therefore your contention is that these additional investments are also part of the business of the co-operative bank and they do not stand in a different position from the other ordinary transactions and that is why you claim exemption from income-tax in this respect as well. Is that so?—That is exactly our position.

4873. *Chairman*: You refer to the establishment of a Training Institute for training candidates for employment in co-operative banks but add that without Government assistance the Institute cannot be more useful than

at present. Will you kindly explain to us in greater detail the arrangements made for such training, the difficulties experienced and the nature of Government assistance required?—At present we have two training institutes, a major one at Saboor and another at Cuttack. Without meaning any disrespect or disparagement to the existing staff, we say that the training imparted in these institutes are quite insufficient. They are at present imparting only elementary knowledge of theoretical banking. I understand the Central Banks are spending about Rs. 29,000 per annum on these institutes. This amount is hardly sufficient for the imparting of proper education and training to bank managers and assistants and we therefore have made the suggestion that Government should subsidise to make the training thorough in every respect.

4874. You state that there is not a single representative of the co-operative banks on the Governing Body of the Indian Institute of Bankers and that this requires rectification. May I know if this omission was brought to the notice of the authorities of the Institute and if so with what result? Does not the selection of members of the governing body rest in members of the Institute?—My Secretary informs me that he did apply for representation but he was told that if a branch were started at Calcutta, his application would be considered.

4875. You suggest that a portion of receipts from cash certificates and Postal Savings Bank deposits should be made available to the co-operative banks. Leaving aside the general question of utilisation of such savings for the requirements of the State is it not a fact that the Bihar and Orissa Provincial Co-operative Bank had at the end of 1928 invested 25½ lakhs elsewhere than with the co-operative institutions of the province and was thus in a position to render more financial aid to its affiliated societies without attracting more deposits?—We do not make a grievance of this only on behalf of the provincial co-operative banks; other joint stock banks also sail in the same boat. We think that the money received in the province ought to be detained for the benefit of the province, at least a substantial portion of it.

4876. That is why I asked you whether your bank was in a position to utilise more resources even if those were made available to you?—Yes; we have to keep adequate fluid resources; we have about 9 lakhs and 80 thousand, invested in other Provincial Co-operative Banks.

4877. Do these represent an obligatory fluid reserve?—It does not. But we have to keep them in reserve as Bankers' Bank for meeting demands of Central Banks at any time.

4878. So this 9 lakhs and 80 thousand is not either part of your statutory reserve or the fluid reserve you are required to maintain under the obligatory orders of the Registrar?—In a way it is. As bankers, for the sake of safety, we should. Maclagan Committee recommended them and there are I think Registrar's circulars.

4879. Therefore if it were possible for you to utilise the money in the development of the co-operative movement, nothing stands in the way of your using the money?—Nothing, subject to the above.

4880. In paragraph 235 of the report of the Bihar and Orissa Committee, it is said "A Glut of deposits. In the year 1926 it was found that the central banks had attracted deposits beyond what they could profitably use, and since for other reasons it was undesirable to expand their lending rapidly enough to absorb their surpluses, it was necessary to take

drastic action to avoid losses on idle money." That does not indicate that at least your bank is in need of resources.—That was two years ago. Not now.

4881. At the end of 1928 you had 9 lakhs and 60 thousand which you were obliged to maintain without investing within the movement.—Of course not as a statutory obligation but as a safer margin for fluid resources and we earn more.

4882. Was it possible for you to use that in the development of the co-operative movement?—Yes, it was possible but in my opinion not advisable. We maintain that if we had a part of the money collected by Postal Savings Bank and Cash Certificates we could give to the movement money at cheaper rates.

4883. In continuation of the same paragraph the Bihar and Orissa Committee say, "The rates of interest were reduced, outside depositors discouraged and in certain banks even local deposits". So all these steps were taken.—All this was done simply to get rid of the plethora of deposits as it happened 2 years ago.

SIXTEENTH DAY.

12th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Mr. MANU SUBEDAR.
Sir HUGH COCKE, KT.
Dr. L. K. HYDER.
Mr. V. RAMDAS PANTULU.
Mr. W. LAMOND.
Mr. R. W. BUCKLEY.
Mr. G. K. DEVADHAR, C.I.E.
Choudhri MUKHTAR SINGH.
Mr. NALINI RANJAN SARKAR.
Seth Haji ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

The examination of Rai Sahib Mihir Nath Roy representative and Managing Director of the Bihar and Orissa Provincial Co-operative Bank was continued.

4884. *Mr. Ramdas Pantulu*: Yesterday the Chairman asked you a very important question. He said you had enough of resources, more than you were able to use, and that therefore there was no need to ask for more funds. I hope you appreciate the Chairman's point?—Yes.

4885. With regard to your Government securities you want them for your further fluid resources?—Yes. We have to keep a certain margin as safety to meet the demands of our depositors and also to meet the cash credit demands (amounting to 12 lakhs) of our central banks.

4886. As a matter of safety you are keeping these funds and you do not lose much in the way of interest?—No; we make better profit.

4887. If the co-operative movement in your Province is not able to utilise all the money it has, why do you ask for more money?—We also look forward to an extension of the movement. At present we are not able to touch more than 2 per cent. of the population and 5 per cent. of their existing demand.

4888. *Chairman*: The information you gave me yesterday requires further elucidation. We have got before us a balance sheet of the bank for 1927-28 which shows that you have fluid resources to the extent of 13 lakhs and also 10 lakhs deposited with other banks. That means that you have at least a fluid reserve of 23 lakhs, and you have also given loans to the extent of 40½ lakhs. That means that you have spent for the benefit of the agriculturist 40½ lakhs and you have got in hand fluid resources to the extent of about 23 lakhs. Now I put it to you as a practical banker whether it is necessary to ask for more money while you have available such a large sum? Is it your proposition that though you have something like 23 lakhs, further money should be handed over to you to be kept idle or to be used for investment outside the co-operative movement while that money might be more profitably used for the movement of crops by investing it in Railways? If it were a question of 5 or 7 lakhs, I would not have asked you this question; but when it is a matter of such a huge sum as 23 lakhs, naturally the question arises why you should ask for more money?—Sir, it should not be forgotten that in addition to the co-operative work which our bank is called upon

to do, we are bankers in the ordinary sense of the word and have to keep a certain safety margin like other commercial or joint stock banks. We maintain that the Co-operative movement is also a business proposition and that co-operative banking is governed by the same basic principles of finance as the ordinary banks, commercial and joint stock. We have always to keep certain amount of fluid resources in hand, perhaps more than the joint stock banks owing to our peculiar difficulties.

4889. Your loans amount only to 40½ lakhs of rupees and you have actually got in hand 23 lakhs, 23 lakhs represent more than 50 per cent. of your deposits. It is the magnitude of the figures to which I am referring?—Quoting from Indian Finance Banking Enquiry Number of 18th January 1930, the Imperial Bank's ratio of liquid assets to total deposits was:

1926	.. ..	57·9 per cent.
1927	.. ..	54·4 „
1928	.. ..	53·2 „

Ours works out to about:

1926	.. ..	33·5 per cent.
1927	.. ..	32·0 „
1928	.. ..	27·7 „

The defect in these figures is that the compiler has taken into consideration only the cash and gilt-edged investments. Other loans and investments amount to Rs. 51·63 in 1928 and that includes the figure of 10 lakhs lent outside the province. If that figure is added to the total of liquid assets, *viz.*, 15·23, the position will be precisely the same as I have stated. The gentleman who compiled this figure does not know that Rs. 9,60,000 represents the real liquid assets.—Even so, 27 per cent. would be a dangerous line. Then the latter we want as a margin for Central Bank cash credit and that would work at 38 per cent.

4890. I am told that in commercial banks the percentage is only 15.—It may be so, but they have certain facilities which we have not.

4891. The cash credit from the Imperial Bank is still there, it is 10 lakhs. Your total loans amount only to 40 lakhs and your total deposits to 53 lakhs. The cash credit of 10 lakhs is 25 per cent. of the loans and 20 per cent. of the fixed deposits. In view of these figures a cash credit of 10 lakhs is not a negligible figure?—It may not be, but I submit that we are working on conservative lines. It has been laid down by the Maclagan Committee that 75 per cent. of the "call money" should be invested in gilt-edged securities. Another committee appointed by the Government of Bihar and Orissa, of which Mr. Collins was the President and I was one of the members, recommended that the B. & O. Provincial Bank should keep invested in gilt-edged securities an amount equal to its total fixed deposits falling due within the next six months, and 50 per cent. of its total savings deposits. We find that 38 per cent. is just adequate enough to meet all this and the cash credit demands of the central banks.

4892. Have you got the Registrar's rules applicable to your province?—I have not got them here.

4893. *Mr. Lamond*: You said yesterday that you were in a position to refuse deposits?—Yes, but that was in 1926.

4894. Then, are you not refusing deposits now?—No. In 1926 we had surplus on account of central banks accepting deposits at non-remunerative or high rates of interest.

4895. Have the rates been reduced?—Yes, they have been.

4896. Now, you never have occasion to refuse deposits?—Except in one or two cases involving big deposits, we have not. We generally want and prefer small deposits, so that the deposits may be spread over the year.

4897. You do not want to be in the position of having to pay a large deposit at once.—We would much rather not.

4898. Has this question of refusing deposits been in vogue for the last two or three years?—No. It was two years ago.

4899. *Mr. Ramdas Pantulu*: You speak of fluid resources varying with the deposits maturing within the next 30 days. Supposing to-day you make your fluid resources statement and then 30 days from to-day, if 2 lakhs of deposits are maturing, you have to maintain one lakh?—Certainly.

4900. If you calculate from to-morrow and a big deposit of ten lakhs is maturing within 30 days from to-morrow, you have to jump up to 5 lakhs?—Yes.

4901. It is one lakh to-day and 5 lakhs to-morrow?—Yes, may be.

4902. *Chairman*: I do not think that constitutes economic use of balances. Do you take fixed deposits for two years or for more?—We hardly get it for more than 2 years.

4903. But you do get for two years?—More than 75 per cent. of our deposits we get are for one year, and of the balance about half will be for two years.

4904. Have your deposits been coming in regularly? There has been no dearth of deposits?—No.

4905. I am trying to find out whether you are working within the margin of safety or whether you are too conservative. If you are too conservative, no amount of reserve would be sufficient for you. The Bihar Committee definitely say that the Provincial Bank has been spending money which they obtain from deposits outside the movement and they refer to a figure of Rs. 24,71,000 in this connection. I assume that they must have examined the position, they know the rules of the Co-operative Department, they have examined the Registrar and what I am trying to find out is whether they had justification for making that statement. The Madras rule says that you have to keep 50 per cent. for deposits falling due within 30 days. It was to elucidate the implication of this rule that Mr. Ramadas Pantulu pointed out that the repayment of deposits may vary from time to time. Is it a fact that there is no reduction in your deposits and that you are getting a regular flow of deposits?—The average is almost the same.

4906. From the point of view of what I may call prudent banking and not over-cautious banking, the amount which may be required for the fluid reserve under the requirements of the Registrar of Co-operative Societies ought not to vary from day to day, seeing that 75 per cent. of your money is in one-year deposits.—I could not put it higher than either the Maclagan Committee or the local Government committee put it.

4907. The Maclagan Committee does not put it very high. All that they say is that your fluid assets must be higher than those of ordinary joint stock banks. I take it that basing on that proposition of the

Maclagan Committee the local Government in your province, and the local Government in every other province, have framed certain rules about the maintenance of liquid reserves. Can you tell me whether any calculations have been made as regards the liquid reserve to be maintained by your bank and how that figure compares with the liquid reserve of 25 lakhs which you are actually maintaining?—So far as our province is concerned, as submitted before there was a Committee appointed by Government, of which Mr. Collins was the Chairman, which laid down certain rules for maintaining fluid reserves and we are keeping up to that standard.

4908. That is, this 25 lakhs is just enough to maintain that standard?—It is generally so. There may be little variations.

4909. Have you made any calculations?—If I were to apply the Madras rule, I am afraid the figure, as it stands, would be very high—On the 15th November 1928, when we made up our accounts, it might have been that figure; on the 16th it might have been different.

4910. Do you make it from day to day?—Yes.

4911. Have you any statistics to place before us?—We have to place before the Board every month for their guidance a statement of the amount which is expected to be required within the next six months and we make provision in this. If we find that our margin of safety is low, we try to make it up as soon as possible.

4912. Can you send my Committee a statement showing how the amount held by you in Government securities and in fixed deposits with other provincial banks compares with the amount which you must keep as liquid assets under the Registrar's rules?—As a matter of fact, the copy of a letter sent by us to the Registrar of Co-operative Societies with reference to the auditors' objection (which I hand over) will give you the required information. We were called upon by the Registrar to justify our investments and we have shown in the letter that, if anything, we were below the average of other provincial banks. That is because we have not got all the resources which the other provinces have.

4913. Here you have worked out your obligatory fluid assets at Rs. 19,01,000 and your gilt-edged investments at Rs. 19,43,000. In addition, you have invested Rs. 9 lakhs in other provincial banks, outside the co-operative movement. It is not necessary for me to pursue this matter; this letter made over by you establishes my point. The Bihar and Orissa Committee say: "The Bank is obviously in a position to render more financial aid to its affiliated societies when they require it, even without attracting more deposits."—We are at cross purposes. It is so to-day, we must admit it but what we have to see is that this organisation extends, and keeps pace with its liabilities.

4914. The Bihar and Orissa Committee also say that they do not anticipate any difficulty in attracting future capital needs for short-term business from the investing public by means of savings bank and fixed deposits. I am trying to find out whether there is any justification for this demand on your part for additional resources under present conditions or even in the immediate future. Otherwise, it means that a certain amount of money is locked up for which the co-operative movement in Bihar and Orissa has no use in the immediate or near future and which may be more profitably used in other directions. If you can establish that at the present moment you are in need of resources for the

purpose of developing the co-operative movement, your case would have been unanswerable and this Committee would have been compelled to formulate a conclusion that money should be made available from some other source for the purpose. But as I understand you, at the present moment you are not in need of more funds. You have plenty of resources from which you can start immediate developments but perhaps you are thinking of future developments, I do not know how many years ahead. For the purpose of these developments there will be no lack of deposits?—If we were not today conducting the banks on conservative lines, I am sure no public would have put their money in them.

4915. After all there is the co-operative basis to this movement, but quite apart from that, the requirements of safe banking as laid down by the local Government in your province is satisfied by the gilt-edged securities which you hold. In addition, you have deposits to the extent of 9 lakhs with other provincial banks which is roughly 25 per cent. of the loans and advances which the bank is giving to the agriculturist. Therefore the bank actually possesses resources which will enable it to develop to the extent of 25 per cent.—This last sum of 9 lakhs is to provide margin to meet the cash credit demands of 12 lakhs of the Central Banks. If we had further resources, we could take deposits at lesser rates of interest than we do now. We now pay 4½ and 5 per cent.

4916. That is another matter, which we pursued yesterday and the Provincial Committee say in this connection that there is already a large gap between the rate of interest at which you get your money and the rate at which the agriculturist gets his money. In fact, if I may use a very common saying, the proof of the pudding is in the eating of it. At what rate do you invest your Rs. 9,60,000 with other provincial banks?—I think it is 6 per cent.

4917. Therefore, here too, you are getting a fairly high rate. Has that helped you so far?—We are making a loss in our investments in Government securities as I told you yesterday, we are getting 4¾ per cent. As we pay 5 per cent. we are losing ¼, and this we have to make up, and we do it by our investment with other provincial banks.

4918. My point is that you have enough funds at your disposal and you are not giving the raiyat the advantage you ought to give him. You have not reduced the interest to the raiyat?—We have reduced the rate of interest to the raiyat. But you might ask why should the central banks lend at 11 per cent., when they borrow from us at 6 per cent. The reason is that unlike other provinces in our province we have to pay for propaganda, education and many other things, which properly speaking should not be placed on us.

4919. I am not concerned with the details of your expenses. But still I come back to my fact that here is this sum of Rs. 9 lakhs which might have been used for the development loans to the raiyats in your province and which has not been so used. I want an explanation for this?—I have tried to give, *i.e.*, to meet the cash credit demands of 75 or 76 central banks.

4920. *Mr. Ramdas Pantulu*: With regard to the long term requirements of your bank, I note you are in agreement with the suggestions made by the Bihar and Orissa Committee. With regard to short term requirements, the Bihar and Orissa Committee in paragraph 305 of their report say—"We do not anticipate any difficulty in attracting short term deposits from investing public by means of savings bank and fixed deposits. But we wish

to press again our suggestion that a good deal of the present short term demand of Rs. 21 lakhs and the subsequent addition to it might well be met by the issue of six monthly bills backed by the provincial bank, to attract some of the "slack season" money employed for the rest of the year in trade". If the central banks had applied to you for short term loans, the sum of Rs. 9 lakhs would have been withdrawn from the banks where you have invested them and you would have lent it out to the central banks. Is that so?—Yes, that is if they were for short terms.

4921. Therefore it follows that the central banks have not been applying largely for short term loans?—Generally loan applications are for long terms ranging from 4 to 5 years on the average. If there were short term applications, this sum would have been utilised.

4922. For the 1st 2 or 3 years in all provinces the Co-operative Movement has been concentrating attention upon consolidation and rectification of the present societies and there is a tendency not to put more money into the societies, with a view to look to the safety of the assets?—That is so. There is a tendency to stop further expansion and they are taking up the work of rectification and all the outstanding loans are now being examined.

4923. Therefore you will probably admit the Chairman's point that you are not asking for additional funds at present?—We admit that.

4924. *Chairman*: That is my precise point. On the facts you produce you have not made out a case for the grant of any concession at present for some reason or other. You have made it a policy so to say to restrict advances and it is quite possible that the effect of that has been that you have got the surplus of Rs. 9 or Rs. 10 lakhs which you have put in some co-operative bank of some other province. Therefore there is no case for you to ask for more resources. It may be a time may come when you might require further resources.

4925. *Mr. Ramdas Pantulu*: In your province the Imperial Bank does not grant any overdraft to any of the central banks as they do in Madras?—No, they do not.

4926. Therefore they get their whole accommodation from the Provincial bank?—That is so. The whole of their cash credit demand about 12 lakhs.

4927. If you have therefore got to help the central banks by giving them some kind of overdrafts and cash credit advances, you in your turn have to fall back upon the Imperial Bank?—That is so.

4928. *Chairman*: You see apparently the Imperial Bank in your province is willing to lend up to Rs. 10 lakhs but you have drawn up to only Rs. 3½ lakhs. Is it not a fact that against cash credit the Provincial bank can draw Rs. 6½ lakhs more from the Imperial Bank?—That is so.

4929. *Mr. Khaitan*: On what security does the Imperial Bank give cash credit?—There are three accounts (1) As against guarantee of shareholders to a maximum of Rs. 4 lakhs; (2) As against the promissory notes of Central banks which they draw in our favour to the extent of Rs. 3 lakhs and (3) On pledge of Government securities up to Rs. 2 lakhs 85 thousand.

4930. Apart from this Rs. 3½ lakhs which you have already drawn from the Imperial Bank they have still a margin of Rs. 6½ lakhs to be drawn from the Imperial Bank?—Yes.

4931. And you could also take an advance of Rs. 15 lakhs on Government promissory notes and it is against this that you have already drawn Rs. 3 lakhs?—Yes.

4932. And therefore the figure of Rs. 6 lakhs has therefore to be reduced by Rs. 3 lakhs. Is that so?—Yes.

4933. *Chairman*: But still there will be a margin of Rs. 3 lakhs left At the present moment I am only concerned with broad facts.—We under take to supply Rs. 12 lakhs to the central banks by way of cash credit. The central banks have not got any investments in Government promissory notes for this Rs. 12 lakhs they depend solely on the Provincial Co-operative Bank.

4934. *Mr. Ramdas Pantulu*: The Chairman is perfectly right. At the present moment you are not driving money into the co-operative movement and the consolidation process is going on and therefore you have some surplus money which you have not invested and the Chairman's point is there is still a margin left which you could utilise for the development of the movement. On that point you cannot dispute?—That is so.

4935. The Chairman's point is that you have drawn only Rs. 3 lakhs already as against the security of Government paper, but what I am trying to point out to you is that if the central banks are also doing active business, the provincial bank has to fall back upon the balance of Rs. 3 lakhs for maintaining its fluid resources. Therefore, is it your view that this Rs. 3 lakhs balance will be required in future and you can utilise the same when necessary?—That is so.

4936. *Mr. Devadhar*: May I know how far the Co-operative movement in your province has reduced the rate of interest?—We have reduced in some cases the interest rates of the mahajan by probably half.

4937. The Bihar and Orissa Committee in paragraph 74 of their report say "Leaving on one side for the present the debt of the landless population and of the landlords, Orissa cultivators pay in the year about Rs. 1½ crores in interest, those of Chota Nagpur Rs. 5 crores and those of Bihar Rs. 20 crores". You just now told us that the Co-operative movement has brought down the interest rates by about 50 per cent. Assuming that the figures given there are correct will we be right in saying that the movement has brought down the interest charges by about 50 per cent. and that the poor peasantry have been saved about Rs. 13 crores every year by way of interest charges?—That is my idea.

4938. *Chairman*: That would be so if you had totally displaced the moneylender, but that you have not succeeded in doing?—That is no doubt true.

4939. *Mr. Devadhar*: The same Committee report again that there are about 100,000 moneylenders in the province... If all these people are gradually replaced by the co-operative organisation, you will probably be effecting greater rural economy and consequent greater saving. Is that so? —I do hope such a time will come.

4940. Would you think that better organisation of co-operative credit and still better organisation of the non-credit activities will ultimately cover the whole agriculturists' class and thus will give a large measure of economic relief?—Certainly, this is not the only kind of work that we are doing. We have recently started societies like the housing societies and various other schemes are on hand.

4941. *Mr. Devadhar*: If helping the agriculturist in all possible ways be one of the basic principles for which your bank was started, may I know

it the housing society you have mentioned is for the purpose of helping the agriculturist?—Those societies are for urban population.

4942. Do you not think that it would be better to confine your activities to the needs of the village population?—In my opinion it would be much better. We also directly finance primary societies where there are no central banks yet.

4943. Have you got a large inspectorial staff?—No, we have none.

4944. Would you try the system of advisory councils?—I am in favour of them.

4945. With regard to organisation of non-credit, do your central banks do anything like propaganda?—They are supposed to do and pay for propaganda.

4946. Is the propaganda assisted by the Registrar?—Yes, as the Governor of the Federation. People are agitating to have non-official governors.

4947. Is that not a distinct line of work for your bank with the co-operation of the Registrar or even without the co-operation of the Registrar or the co-operation of the people in the villages?—So far as our bank is concerned, I do not think we can take it up with the resources we have We pay contributions to the Federation.

4948. Do you not think that some definite recommendation should be made to create banks of your size or other similar agencies whereby non-credit work will be pushed on?—We are certainly in favour of it.

4949. Do you think that such a scheme would require a tremendous amount of money?—It would; but we do not grudge it; people will gladly put the money.

4950. Would that facilitate the creation or the establishment of non-credit banks?—Yes.

4951. Many people believe that our co-operative movement has failed; of course I am not a supporter of that statement; on the other hand I believe that there are a number of people who have and are prepared to sacrifice their interests for the sake of the Movement. What is your opinion about it?—In order to put the movement on a really sound basis, we should have men of the right stamp and the leaders of the movement must come from among the people themselves, for which a great deal of propaganda and education are necessary.

4952. Is not one of the difficulties want of funds?—Personally, I think, yes. Government ought to supplement our resources; as it is, they are not doing their part.

4953. You are spending a large portion of the money at present on propaganda, etc., to which the Government contribution is very small; so you would like that contribution to be increased?—Yes.

4954. In order to push on the work, you would like the propaganda to be assisted by Government more vigorously than it has been done in the past?—Certainly.

4955. Do you accept the charge that the money already available has not been fully utilised?—I do not accept that charge.

4956. *Mr. Manu Subedar*: You have been referring to certain relations of the central banks with the joint stock banks and the Imperial Bank. What sort of relations do you mean?—There are some joint stock banks

with which our central banks have got certain relations regarding accommodation.

4957. Do the Central banks take loans from the joint stock banks?—Yes, as cash credit only.

4958. Do they get it cheap?—No, but they get it in time, though at times at higher rates than those at which we can lend them money.

4959. What is the reason: Delay is the principal cause. For instance, if a place like Cuttack wants accommodation, it will have to wait at least six or seven days for a letter to come and go and within that period the requirement has to be met from any source which may be handy.

4960 But that is due to the peculiar geographical position of your Province.—Yes, to a certain extent, that is so.

4961. With regard to cash credits, you mentioned the figure of 12 lakhs. Are they cash credits or loans?—They are cash credits but there is a maximum cash credit on which they can draw on 7 days' notice. They can draw upon us at any time.

4962. So your liability would be subject to seven days' notice?—Yes, small portion of it.

4963. In regard to loans and advances to central banks, there would be in some cases cash credits; so that you have got two kinds of liability; one is towards the depositor and another towards the central banks?—Yes, exactly.

4964. But in your accounts you have not shown any liability to the Central Banks?—We publish an annual statement in which we show the distinction. But in our balance sheet this is not brought out.

4965. Do you not think that that arrangement is to a certain extent misleading and would it not therefore be better in future to make your balance sheet more clear on the point?—I accept your suggestion.

4966. You said you could get money from other provincial banks?—Yes.

4967. At what rate of interest?—At 5 to 6 per cent.

4968. As a practical banker, would you maintain your fluid resources at the figure at which you are maintaining them at present, or at a smaller figure?—I think that our present fluid resources are on the conservative side, and I would maintain it till there are other additional financial facilities.

4969. What is your opinion with regard to the control over the Co-operative Movement at present exercised by the Government? Do you think it will conduce to the progress of the movement?—We hope that the Co-operative Movement will some day be entirely free from the sort of detailed control as at present exercised by the Registrar of Co-operative Societies.

4970. If that is so and if you are left to yourself, do you think it would still be necessary for you to keep this very big provision for liquid resources? —With more liberty of action, we hope to be able to extend our work considerably, so that we shall require still more money. The other possibility is the creation of an agricultural paper which will go from hand to hand. That will enable us to reduce the margin.

4971. Is that not possible under conditions as they exist at present?—No, under present conditions we do consider it necessary.

4972. There is a charge often levelled at the Co-operative Movement that it takes deposits at very high rates and in doing so competes with

joint stock and commercial banks: and this, the critics say, the Co-operative Movement should not be allowed to do. How do you meet this charge? —I do not think we are receiving deposits at high rates.

4973. At what rate do you receive deposits?—At 4½ to 5 per cent.

4974. And the Central Banks?—They take at 6 per cent.

4975. *Mr. Lamond*: I should like you to refer to your statement that it is not an easy matter to maintain adequate fluid resources in Government and Trust securities, as the yield on such securities is generally found to be more than one per cent. lower than the rates co-operative banks have to allow on their borrowed capital. As a banker, it is very difficult for me to accept that statement. I cannot see why it is impossible for you to maintain Government paper?—As I have said already, these investments are no investments, we generally lose about ¼ per cent. in them but we maintain them as fluid resources.

4976. I do not see why that should be so. You cannot expect to employ all your funds and obtain a return for the full amount. There must be a certain amount floating. I understand that the Punjab has the most highly developed system of co-operative banking. This is what the Punjab Provincial Banking Enquiry Committee says in this regard:

> "Nearly all central institutions have been given overdraft facilities by the Imperial Bank against Government securities. This accommodation is used almost entirely for the purpose of repaying deposits and hardly at all for lending to primary societies, and as such it is an important element in the fluid resource maintained by central banks and unions."

They are perfectly satisfied with the facilities which the Imperial Bank are giving them.

4977. *Mr. Ramdas Pantulu*: In Bihar central banks find it difficult to invest in Government securities because they themselves pay higher rates on deposits.

4978. *Mr. Lamond*: The lowest rate in the Punjab is in Jullundur, 4¾ per cent. I know that there is a lot of floating capital at that place. In Lahore, Amritsar, Sialkot, Ambala, Dharamsala, and Karnal it is 5 per cent., in five more places 5½, in twenty-two 6 and in ten over 6. So they are not getting money cheaper than you are?—In my part of the province, central banks cannot raise below 6 per cent.

4979. But the Punjab are paying that.—No answer.

4980. In speaking of the Training Institute, what particular type of candidates have you in mind?—I was thinking of officers to run the administration, supervisors, clerks and inspectors.

4981. For the Provincial Bank themselves?—Yes.

4982. But the Imperial Bank has an ambitious scheme of training; at present 50 per cent. of the Imperial Bank's supervising officers are Indians trained by that Bank?—May be; I have no knowledge.

4983. But you make a definite statement that "the local joint stock banks including the Imperial Bank of India do not provide any facility for the practical training of candidates in banking"?—Probably then I am wrong.

4984. *Chairman*: Regarding crop loans, your point is that if the loans which the central banks make to primary societies could be divided into two classes, *i.e.*, crop loans in regard to which there will be a separate class of paper, and also long-term loans, then the separate class of paper in regard to the crop or short-term loans might become paper which can be

accepted by the Imperial Bank or other banks. Is this a feasible proposition? From what little I know about the co-operative business, when a primary society makes a loan to a ryot, that loan may ostensibly be for a short-term purpose, but the ryot in the present state of his education cannot distinguish between his short-term requirements and his long-term requirements?—That is so.

4985. That is the reason why outstandings arise. In the Punjab they spread the period of recovery over a certain number of years. Would it be possible under those conditions for your primary societies to agree to a short-term paper and a long-term paper?

4986. *Mr. Devadhar*: With reference to the classification of loans, I understand the practice is for the co-operative inspectors often to ascertain from members the period within which loans could be repaid. If it is a crop loan, the period is generally 12 months, but loans for investments, such as purchase of bullock or implements, or for sinking of wells, are made payable within two years.

4987. *Chairman*: But having got the loan, does the ryot always stick to the period of repayment?—I am asking this because some of the Provincial Reports say that from the practical point of view it would be impossible to enforce a distinction so far as the ryot is concerned, between a short-term loan and a long-term loan?—With the education that he has, it would be.

4988. The Madras Committee say that it would be difficult to enforce this distinction. The Bihar and Orissa Committee say "it is frankly admitted by several co-operative witnesses that loans ostensibly taken for one purpose are sometimes used for another ". Until this difficulty is got rid of, it would be most difficult, if not impossible, to pursue the suggestion?—If you wait for the ryots' education before you introduce it, probably it will take years, but if you introduce it and make the men understand, my own idea is that the Bihar and Bengal ryots are clever enough to follow it at once.

4989. Apart from the question of crop failure in which case the period of repayment has to be extended, there is this difficulty. The poor ryot, having got the money, spends it. He does not keep separate accounts as to how much he spends on the production of his crops, how much on the marriage of his daughter, how much on sradh, and things of that sort. Therefore the whole account is mixed up. That being the position, I put it to you from the point of the co-operative movement, whether the primary societies will accept this discrimination between the two classes?—It would be difficult in the beginning, but I submit that if we start it and teach the ryot, it would be much easier than waiting till the ryot came up to this standard.

4990. *Mr. Lamond*: Have you made the ryots realise that on a certain date a certain amount has to be repaid?—Yes.

4991. *Mr. Manu Subedar*: Do they have control of the funds made out of the sale of the produce?—Absolutely not, because we have not been able to free them from the mahajan.

4992. The control is in the hands of the creditor?—To a certain extent yes.

4993. Even if they realise the obligation, they have not the ability to fulfil it?—Yes, there is the debt redemption.

4994. *Chairman*: The debt redemption is another difficult problem. If you give Rs. 100 to a ryot from the co-operative funds to help him to redeem his debt, you cannot thereafter take any steps to stop him going the next day to a mahajan and getting another Rs. 100?—In a way we can restrict it, but we cannot stop it. If we take the collateral security of his property, no shrewd mahajan will advance him money.

4995. Is that a correct statement?—There are various classes of mahajans down to the Kabuli. If a mahajan lends money on insufficient security, of course he gets back his money in some way. I was only referring to the general proposition.—In your province an attempt was made at debt redemption in certain places in Chota Nagpur and you know what happened to that experiment.

4996. Is it your intention that branches of a provincial bank should take the place of the present central banks or should work side by side with central banks?—We informally consulted the Registrar of Co-operative Societies and not finding any response from him, we did not proceed with the matter.

4997. What is the idea of your scheme?—You have the apex bank and then central banks at various places. Let us assume your apex bank is at Patna and the central bank at Bhagalpur. Is it part of your scheme that there should also be a branch of the apex bank at Bhagalpur?—No. We want that such of the central banks as are not flourishing should be taken up as our branches, and there are certain undeveloped areas where we can have new branches.

4998. Therefore you do not intend that there should be a branch of your bank at places where a central bank is going or can go on?—No.

4999. You said that non-credit work has not been started and that there was not a single co-operative sale society working in Bihar and Orissa, also that if there were advisory boards working with branches of your apex bank, they might help in this work. Have not the central banks got advisory boards?—They have.

5000. There are central banks for a group of villages or sub-division. Therefore they are in a better position to establish local touch than your big apex banks. From what you told us yesterday, I gathered that you have very great sympathy for the development of the co-operative movement, including co-operative sale societies, and you have worked at it for 13 years. Why it is that so far not a single co-operative sale society has been established on successful lines in your province?—I suggested yesterday that unfortunately we have been dealing with things which have a local market. If we begin to deal with stuff which we could export in large quantities, perhaps success could be achieved.

5001. You referred to there being no lack of workers. If it is so, why have you not succeeded in starting a co-operative sale society for *gur* or for chillies?—I do not go so far as to accept that there is no want of workers. There is want, but not very much.

5002. Even taking your statement in its qualified form, why in the last 13 years have no co-operative sale societies for *gur* or chillies been started?—That will be for the Department to say.

5003. The Registrar has always supported the idea of co-operative sale societies, therefore how can you take the department to task? If they have failed, the reasons for their failure must be quite different?—Without

suggesting that they followed the wrong lines, my idea is that they have not followed the right lines.

5004. Why has not your bank, either directly or through its central banks, made any efforts in this direction?—We do not initiate these things. Constituted as we are, we have nothing to do with them. We are only there to see to the adjustment of finance between the central banks, but we can go out of our way and advise.

5005. I believe you have certain advisory functions and that will not take you out of your way. Would it be against custom or standard arrangements as prevailing in your province if you gave advice to a central bank that they might foster the starting of a co-operative sale society for *gur*?—If we did it directly, it would probably not attract attention. We can certainly go through the Registrar and the Director of Industries.

5006. It means that you then work through the Government channel. Why should not your central bank get hold of workers in a particular locality which is a centre for the production of *gur* and advise them to start such a society and then go up to the Registrar for sanction?—I could not tell you whether it was attempted or not. We have no local knowledge. Probably they started and failed, probably they did not get workers. What it is, it is more than I can say.

5007. So far as I am concerned, I can only look upon your evidence as the statement of a theoretical thinker who has had no experience?—I am sorry, probably that is not my position.

5008. *Dr. Hyder*: In connection with the sale societies, taking the different products of your province, *e.g.*, rice, which is a staple crop, there is not much trading. There is trading only locally between the villager and the *bepari*?—Yes.

5009. The province as a whole does not export very much rice?—No, the percentage has been worked out at 6 per cent.

5010. I want to bring out the difficulties of establishing a sale society whether it be in Bihar or Madras or elsewhere. Take for instance a commodity like lac. Do you know that there are violent fluctuations in the price of lac?—Yes.

5011. So that if you really did start a sale society for the sale of lac co-operatively, that would not be a very good commodity, because in order that your society and its members may not incur a loss, you must fix upon a commodity which is not subject to violent fluctuations?—Certainly.

5012. For the successful running of the sale society you must not have too many varieties of a commodity, but you must have one quality. With regard to the business of sale, you will admit that a higher standard of business ability is required than perhaps is forthcoming at present. After all, it is forecasting of risks and expert knowledge, and unless these are forthcoming, the management is not likely to be a success?—I think they are very good reasons.

5013. The central difficulty would lie round the Management. In the absence of sufficiently trained businessmen in the co-operative Movement, no amount of enthusiasm would bring sale societies into existence?—I would suggest that if we could interest the *beparis* who are in these societies and induce them to come together, it would be a good thing.

5014. *Chairman*: They are the people whose profits you want to reduce?—But they are not making much.

I thought a little while ago you said they were making good profits. It is not consistent on your part to say that those people who come into the co-operative movement try to secure a state of affairs in which their profits will be reduced so that the agriculturists might benefit?—So far as lac is concerned, it is a small crop, they can bind themselves to come without loss to any one.

5015. You want to introduce some arrangement which will secure to the agriculturist a greater share of the value of his produce. Obviously if he has to secure a greater share, somebody else has to lose. The export price is based on world conditions and that cannot remain fixed. So if the agriculturist has to get more, the middleman must lose. Is that not obvious?—Yes.

5016. *Mr. Lamond*: In connection with advances made by the central banks to primary societies, what supervision is exercised?—They send out bank managers and supervisors to see that money that has been taken for a certain purpose is used for that purpose and generally to lecture to them as regards co-operation.

5017. Do they report to the central banks?—They take their authority from the Federation.

5018. *Dr. Hyder*: You made a statement that your Bank maintains a full-time Secretary and staff of nine members, but possesses no field staff and does not undertake the work of inspecting or supervising and that you go to the central bank for assistance. Is this correct?—Yes, quite so?

5019. Central banks have such staff?—Yes.

5020. Do you lend to societies direct?—Where there is no central bank, we depend upon the Advisory Committee and in some cases Government also give special officers. We do not lend out money to any society or person without a recommendation from the Registrar. The moral responsibility is absolutely on the Registrar. Whether it is a central bank or a primary society, we do not advance without a recommendation. Even when a recommendation comes, we go through the annual report, we discuss the matter and if we find we could accept them, we lend; otherwise we refer the matter back to the Registrar for further information.

5021. *Mr. Devadhar*: In reply to a question by Dr. Hyder, you said that there is a lack of intelligent lead given to people in the matter of organising sale societies.

5022. *Dr. Hyder*: I was trying to make out that the difficulty of sale societies lay in the Management and in securing proper trained men.

5023. *Mr. Devadhar*: Was not the same difficulty experienced or expressed by people when they thought of organising co-operative banks?—Yes.

5024. *Chairman*: In spite of its functioning for the last 25 years or over, the co-operative movement has spread only to 2 per cent. of the total population in your province. Is that so?—Yes.

5025. But what I cannot understand is how is it you have not yet found fit to start at least one crop sale society, which you say is bound to succeed if worked on a large scale?—So far as I could see, efforts are being made.

5026. *Mr. Ramdas Pantulu*: Do you make any attempt in your province to distinguish between short and long term loan applications?—We are now trying to observe that difference.

5027. You are not getting separate applications for long and short term loans as in Madras. That is what you say?—The present Registrar is taking up the question, and we are gradually moving on in that direction.

5028. If that system comes into vogue, do you think the conditions would improve very much?—Yes, certainly.

5029. *Mr. Mukhtar Singh*: Do you provide finance for landless raiyats?—Yes, we do. Honesty and character are the only credit and criterion with the co-operative movement.

5030. You do not mind whether the man is only a tenant or whether he is a proprietor of land?—We generally advance loans to all desirable persons.

5031. Do you feel really that it is possible for a co-operative society to give sufficient amount of credit for all the ordinary agricultural operations of the agriculturists?—No, not for all, under the present resources.

5032. Suppose you have a society in a village and it has 300 members. Would you be able to meet all their financial requirements?—It is not now possible to give all the financial assistance they want.

5033. Therefore, do you mean to imply that members of your co-operative societies have to borrow elsewhere as well over and above the loans that they get from your societies?—Sometimes they get their loans from the mahajans as well.

5034. Then, will the mahajan charge a higher rate of interest to members of co-operative societies who approach him for loans?—If he is a man heavily in debt.

5035. *Chairman*: I think Mr. Mukhtar Singh's point is this. Let us assume that there is a co-operative society in a village and it has got 20 members. Quite apart from the redemption of old debt, each of these 20 members wanted say Rs. 50 each for their crop requirements. Will the primary society be able to meet the requirements of its members?—They do finance such requirements, no doubt.

5036. *Mr. Mukhtar Singh*: But what happens if the crop fails?—They are allowed an extension of the period of repayment.

5037. Have you prepared any statistics for finding out whether the total indebtedness of the members of the co-operative movement has gone down really or not?—We have probably not been able to decrease the indebtedness, but certainly the indebtedness has not increased.

5038. Do you mean to imply that their assets have increased and so also their indebtedness?—It is probably so. If a balance sheet was made out, probably their assets would be better than liabilities.

5039. *Chairman*: For his crop expenses and maintaining himself, the cultivator according to you is granted adequate loans?—I think yes.

5040. But you do not grant them loans for what are called unproductive expenses, and therefore from that point of view the actual indebtedness is bound to increase unless the assets of these men are sound?—I agree. The only justification for the co-operative movement is to lighten the indebtedness of its members.

5041. Are there not cases where the provision of facile credit has resulted in an improvident man getting more and more into debt?—Of course, there are.

5042. *Mr. Devadhar*: When I was in your province some time ago I asked your local co-operators whether they will explain to me the difference in their method of giving financial accommodation from the sowcar's method, and the answer that I got was that the co-operative movement would always cut down the demands of their members for loans, while it was reverse in the case of the sowcar who always welcomed debtors and even induced them to accept more?—That is the picture.

The examination of the witness then concluded.

SIXTEENTH DAY.

Friday, the 12th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Dr. L. K. HYDER.	Mr. G. K. DEVADHAR, C.I.E.
Mr. V. RAMDAS PANTULU.	Choudhri MUKHTAR SINGH.
Mr. W. LAMOND.	Seth Haji ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Mr. Vishnu Thakore, representative of the **Indian Provincial Co-operative Banks' Association,** and Secretary, B. & O. Provincial Co-operative Bank, Patna, was examined.

5043. *Chairman*: Will you kindly give us some particulars about the objects of your Association and its membership?—Our Association has got its printed by-laws. The main object of the Association is to promote the growth of co-operative organisations, to safeguard the financial interests of its members and to do everything with the funds available at the disposal of the Association to promote these objects. In financial matters, the Association, in the absence of an All-India Apex Bank, tries to bring these members together by publishing quarterly financial statements and issuing forecasts of the requirements of its members. Our membership is confined only to apex-co-operative banks of British India and Indian States.

5044. Therefore your operations do not extend to provinces where there are no apex co-operative banks. Is that what you mean?—That is so.

5045. You state that although co-operative banks in the Bombay Presidency keep short term deposits with the Exchange Banks, the latter do not allow even inter-bank call money to the Bombay Provincial Bank without asking for security. Will you kindly tell us if this has always been the practice of Exchange Banks or whether there has been only recently a change in their dealings with the co-operative banks?—I think this question arose only recently since the suspension of cash credit facilities by the Imperial Bank.

5046. You state that the Imperial Bank is also said to be unwilling to give advances to the Bombay Provincial Bank on the security of Government paper. Will you kindly tell us if you have any definite information on the subject?—Sir Lalubhai Samaldas Mehta, who is connected with the Bombay Provincial Co-operative Bank, in his evidence before the Bombay Provincial Banking Enquiry Committee, has said as follows:—"This credit, which was not being made much use of, but served as an ultimate fluid resource, was curtailed by half and has been stopped this year. The ground for this is stated to be the trust deed to secure the debentures, under which the trustees have a floating charge on the general assets of the bank. The interpretation placed by the lawyers on the significance of such a charge differs, but for the present the authorities of the Provincial Bank

have refrained from further arguing the point with the Imperial Bank of India. No credit, in view of this ruling, is allowed even on the security of Government paper". Mr. V. L. Mehta, giving evidence before the Bombay Committee on behalf of the Bombay Provincial Co-operative Bank has also said so.

Mr. Lamond: This is a legal point. We are not in a position to discuss the subject at present. The Imperial Bank when it gives evidence before this Committee will put the whole case before it.

5047. *Chairman*: You say that if the co-operative banks are required to give an undertaking that no business of buying and selling of remittances will be transacted by them at the centres where the Imperial Bank of India has branches, their expansion and usefulness will receive a serious check. Am I correct in assuming that the undertaking refers to remittances by remittance transfer receipts in connection with commission business? If so, will you please explain how the untoward result mentioned by you is likely to arise?—What we meant by usefulness was the usefulness to the depositors. It will also stand in the way of a rapid remittance of funds from one place to another.

5048. Is it your point that the co-operative banks should be allowed to make remittances by remittance transfer receipts in connection with the commission business?—Yes.

5049. From what you state, no embargo seems to have been placed on your remitting money by remittance transfer receipts in connection with your remittances within the movement. It is only when you want to remit money in connection with your commission business that certain restrictions have been imposed. How will that interfere with the expansion and usefulness of your co-operative banks?—My point is that our deposits also get a set-back and this also affects the co-operative movement.

5050. As matters now stand, are measures which have the effect of increasing the deposits in these co-operative banks likely to help in the development of the co-operative movement and for the purpose of the further development of the co-operative movement in the near future do co-operative institutions require any further facilities for the growth of their deposits?—In the opinion of our Association, they do require further facilities in regard to this matter.

5051. If they got the money what will they do?—We do not agree with the position taken up by some of the Provincial Banking Enquiry Committees that these provincial co-operative banks have a surplus which they cannot invest.

5052. You listened to the evidence of the previous witness, Mr. Roy, who was examined on behalf of the Bihar and Orissa Provincial Co-operative Bank and you remember he admitted that in the near future there is no need for additional resources for the purpose of further development of the movement?—Yes, I heard him say so.

5053. I shall now read out to you certain figures which are before us. In the Punjab Provincial Co-operative Bank, in the year 1929 their fixed deposits amounted to Rs. 35 lakhs and their current and savings deposits amounted to Rs. 10 lakhs, altogether 45 lakhs, and against this amount their investments aggregated to only Rs. 36 lakhs. What do you say to this?—The Punjab Provincial Bank was started only about 6 years ago and it is gradually getting a footing in the co-operative movement.

5054. Therefore it is I say that the co-operative banks in the Punjab do not stand in need of further finance for the development of the movement?—I am afraid we cannot generalise like that. The figures quoted are old ones. The proportion has undergone a considerable change during the period that has elapsed since the statement was prepared. On 31st March, 1930, the Punjab Provincial Bank had 71 lakhs out of which 35½ lakhs were invested in Government securities and 35 lakhs in advances to central banks.

5055. *Chairman*: Have you got corresponding figures for 1929?—I have not got them here, but I can send them later on if the Committee so desire.

5056. *Mr. Rushforth*: Do you publish the statement issued by your Association?—No, we do not publish it; it is meant for circulation among members.

5057. *Mr. Buckley*: What is the object of circulating it to members?—Just to enable them to see whether the fluid resources which have been required by Government have been properly maintained by them and whether they are running on sound lines.

5058. *Chairman*: According to you, these are the latest figures though they differ largely from certain figures supplied to me by my colleague, Mr. Ramdas Pantulu. Take these figures as they stand; against deposits of 71 lakhs, you have got, invested in Government securities about 36 lakhs, nearly 50 per cent. There again your statement does not show what is the obligatory deposit under the rules of the Registrar?—Under the rules of the Registrar, it will be cent per cent. of the current deposits, 50 per cent. of savings and about 25 per cent. of fixed deposits.

5059. Take any province: is the position there such that under present conditions the co-operative movement is hampered owing to want of funds or is it such that there is money at the disposal of the co-operative banks which is being utilised outside the movement?—The movement is no where hampered for want of funds, but it is hampered for want of funds at a cheap rate of interest.

5060. If the money were available at a cheap rate of interest, would the co-operative movement be able to issue large advances to cultivators than it is doing now?—If not larger in amount, the advances will be issued at cheaper rates.

5061. Therefore it follows that there is no lack of resources. Now, supposing the resources at the disposal of the Co-operative Movement in the Bombay Presidency is 50 lakhs and it issues advances to the extent of the full 50 lakhs, whatever the rate of interest charged; now, if its resources are raised to 100 lakhs, what is going to happen to the remaining 50 lakhs?—It does not necessarily follow that we require an enhancement in the resources of the Co-operative Movement; we require resources to be made available to us at cheaper rates of interest.

5062. That is quite a different matter.—Our point is that if we advance money to the societies at cheap rates, societies will expand much more rapidly, and therefore the banks will advance money more rapidly.

5063. Is it not a fact that in several provinces the apex bank refuses to sanction loans to Central banks or the Central banks to primary societies, because they are not satisfied with the object for which the loan is

demanded?—When the object is legitimate or is permissible under the Co-operative Societies Act, I do not know of any instance where the co-operative banks have refused money.

5064. Your rates of interest are lower than the rates of the mahajan?—They are much less.

5065. Therefore even with the present rates of interest there should be a large demand on the co-operative banks for advances to the ryot. The ryot can go either to the co-operative institution or he can go to the money-lender, and he is actually able to get loans from the co-operative institution at a much lower rate than that which he is asked to pay to the money-lender. (That was brought out in answer to a question from Mr. Devadhar). Is it not therefore natural that the ryot should prefer to go to the co-operative institution rather than to the money-lender?—Yes.

5066. Does it not follow therefore that the question of reduction of interest is not an essential factor?—In that case we will have to go down to the primary societies in the villages. It does not necessarily follow that all members of one village get loans at the same rate from the mahajan. Some get it at cheaper rates; others at higher rates. But when we think of the mahajan's rate of interest we take into consideration the average rate only.

5067. What is the proportion of the agriculturists who get their loans from the mahajan at the same rates or even at cheaper rates to those who get their loans from the co-operative institutions?—At least about 10 per cent., generally speaking, can get cheaper rates from the mahajan than from the co-operative banks.

5068. How does the ryot suffer in that case?—This brings us back to the question of the position of the mahajan. The Co-operative societies have got organised credit, while the mahajan has not.

5069. How does that affect the cultivator? How does he suffer?—He is not sure of getting that help always at the same rate; another thing is that he cannot expect to get help whenever he wants.

5070. In that case he will come to the co-operative institution?—But the temptation of getting cheap rates from the mahajan at another time is still there.

5071. But as you admit, these cases are exceptional, and therefore it is not possible to legislate for exceptional cases. Hence my statement stands, namely, that the Co-operative Movement is not making the fullest use of the money available within the movement.—That is because of the high rates of interest.

5072. My colleague, Mr. Ramdas Pantulu, also supports me in the view that it is only in exceptional cases that the ryot prefers to go to the mahajan instead of coming to the co-operative institution. It has been impossible to legislate for these exceptional cases and thereby to lay the door open to other serious difficulties. If it could be established that if more money flowed into the Movement and the rates of interest cheapened, it would no doubt benefit the agriculturist as a class, your proposition could not have been disputed. As it is, all I can say is that a reasonable and honest critic may be excused if he takes the view that at the present time the Co-operative Movement has more funds than it can usefully employ within the movement.

5073. *Mr. Ramdas Pantulu*: The fact is that we had to make enquiry into the question as to why the villagers had resort to the mahajan and the answer we got was that it was not because of the rates of interest; it was due to the inelastic method of the co-operative movement. Sometimes the co-operative banks to whom application is made for help take as long as 4 or 5 months to decide whether an advance should be given: by the time they can come to a decision, the ryot's needs are satisfied through the mahajan. When the loan is given the amount is not always sufficient. And thus it is that the ryot cannot get away completely from the clutches of the village moneylender.

5074. *Chairman*: Do you dispute that statement?—No, I am not disputing it.

5075. Therefore, what is required is initially and essentially a reform within the movement under which credit facilities would become more readily available to the ryot before there is a real demand for additional financial resources. I myself am greatly interested in the Co-operative Movement and I am anxious that the movement should not starve for want of funds. But my object in discussing the question so thoroughly is just to ascertain whether, if more funds were allowed to flow into the movement, there would be any substantial gain to the agriculturist until the Movement has made certain reforms.

5076. *Chairman*: You say that if the co-operative banks are compelled to maintain adequate fluid resources without depending for this purpose on the Imperial Bank, this can only be achieved by an increase in the rates of interest charged on loans. Is it not a fact that generally speaking co-operative banks possess under present conditions adequate fluid resources without depending on cash credit from the Imperial Bank, owing to their inability to utilise the whole of their resources for rendering financial aid to their affiliated societies?—I would refer you to the whole paragraph in the memorandum in which this statement occurs. I maintain the statement.

5077. As matters now stand, in some of the provinces at any rate, the provincial banks or the co-operative banks as a whole are not utilising the whole of the cash credit made available for them by the Imperial Bank, and as a matter of fact they have got more resources than they can utilise for the time being. If you examine the position in other countries, you will find that they are making the fullest use of their resources (the analogy of other countries may or may not be proper). If there are adequate resources within the movement and the result of that is that the cash credits which have already been made available by the Imperial Bank are not fully utilised, where does the difficulty arise?—The distinction is between adequate resources in the movement and adequate fluid resources. 'Fluid resources' mean resources which are meant for meeting liabilities created by the banks for carrying on their work and 'adequate fluid resources' will include liabilities which the banks have to pay as well as the liabilities they incur on behalf of central banks which they finance.

5078. I was referring throughout to 'adequate fluid resources' in the course of the discussions this morning with the representative of the Provincial Co-operative Bank. Several provinces, *e.g.*, Bihar, Punjab, are not making full use of the fluid resources placed at their disposal by the Imperial Bank. On the other hand, they have large amounts of fluid resources of their own. That being so, how can this result you complain of arise?—As a matter of fact, we say that all provincial banks have adequate fluid

resources only from the figures which are supplied to us. We do not know their commitments or their liabilities which might be due. There are liabilities, too, of provincial banks to central banks in view of their constitution and functions.

5079. That is my difficulty. We discussed the case of Bihar and Orissa this morning and I confess that the representative of the Bihar and Orissa Provincial Co-operative Bank failed to satisfy me. He ended up by saying that they had adequate fluid resources and produced a letter which went against him.—I do not think this letter which was produced shows anywhere that the fluid resources are adequate.

5080. Even according to the Registrar's rule the fluid resources are more than adequate—The fluid resources, according to the letter, are Rs. 19,42,000, invested in Government securities. According to Government orders we are required to maintain fluid resources of Rs. 19 lakhs, and the difference is only Rs. 42,000. These fluid resources are for meeting the liabilities of the bank to its depositors. They do not include the resources which the provincial bank will require in order to meet unexpected demands from its affiliated central banks. We are a small bank with a working capital of Rs. 75 lakhs, working as an apex bank for the whole province *i.e.*, as a banker's bank, and as I have said, we are required to maintain not only fluid resources for meeting our liabilities to depositors but for meeting demands from central banks also.

5081. We examined the position as it stood two years ago and the position as it now stands and from the letter produced it did not appear that there was a material change. Therefore, in theory, what you say may be all correct.—It is not a theory, I am talking of practice.

5082. I am talking of practice also. The first practice is that the Registrar's rules require you to maintain a certain fluid resource. You then say that you do not consider that to be fully adequate. You want more for certain purposes which means that the Registrar's rules did not take them into consideration?—These rules refer only to liquid resources which are required to meet our own liabilities to depositors. There is no rule laid down meeting the liabilities of central banks.

5083. The assumption is that you can meet them from the growth in your ordinary deposits or reserves and the experience of two years in the case of the Bihar Provincial Bank certainly substantiates that assumption?—The assumption is that the fluid resources prescribed by the Registrar in several provinces are not sufficient and the provincial banks are therefore maintaining greater resources than have been prescribed actually.

5084. From that I draw the inference that they cannot spend the money within the movement in their own provinces. This, as a matter of fact, is supported by what is said by the various provincial committees' reports?—I will quote only one instance which occurred in Madras. In the course of one year there was an unexpected demand of Rs. 45 lakhs due to the withdrawal of cash credit facilities granted by the Imperial Bank to central banks and this demand had to be met by the Madras Provincial Bank within a period of nine months.

5085. The incident given supports me rather than you, because it means that the withdrawal of the cash credit by the Imperial Bank did not affect injuriously the financial position of the Madras Provincial Bank. My point

was that these co-operative banks possess enough of fluid resources to enable them to do without the cash credit of the Imperial Bank. If the statement which you have made is correct and if the Madras Bank had to replace 45 lakhs of cash credit which the Imperial Bank gave it by means of its fluid resources and it did not suffer in the process, that only establishes my proposition?—If we refer to the figures, we see that the Madras Provincial Bank at present has fluid resources and Government securities amounting to 35 per cent. of its total liabilities. There is a substantial fall in resources. What I suggested was that the cash credit facilities were not granted to the Madras Provincial Bank by the Imperial Bank. but the Imperial Bank had granted these cash credit facilities to the central banks affiliated to the Madras Provincial Bank and these facilities had to be replaced by Government securities.

5086. To that extent has the cash credit facilities of the apex bank increased?—No.

5087. Therefore, even if the Imperial Bank withdrew this accommodation amounting to 45 lakhs, the co-operative financial institutions in the Madras Presidency as a whole were able to meet the position so created by means of the fluid resources at their disposal. That is precisely what I am referring to. If you had referred to the withdrawal of other deposits, it might have helped you to maintain your position?—What happened was that these 45 lakhs were not met by the provincial bank out of its own resources. The demand of 45 lakhs from the central banks was met by the Provincial Bank by withdrawing money from the Imperial Bank against the overdraft account granted to it against Government securities, withdrawal of some of the deposits which the Madras Provincial Bank had placed with other provincial banks, and acceptance of fresh deposits.

5088. It met it from other fluid resources at its disposal. That brings me back to my point.

5089. *Mr. Lamond*: You say in your memorandum " the system of advances against co-operative paper was therefore very important in Madras till it was suddenly stopped by the Imperial Bank of India last year". It was not suddenly stopped, it is being withdrawn over a period of five years.

5090. *Chairman*: I am not questioning his statement. Accepting his statement as correct, though the Imperial Bank withdrew the accommodation of 45 lakhs from the co-operative financial institutions, they were able to meet it from other fluid resources at their disposal. Had that the effect of compelling them to raise their rate of interest?—In the beginning they certainly had to raise their interest on deposits for a period of 4 to 5 months.

5091. I am referring to the lending rate, and looking at the problem from the point of view of the agriculturist. The withdrawal of fluid resources by the Imperial Bank may hamper the movement in one of two ways; it may compel the co-operative movement in that province to curtail the advances made to the ryot, or it may compel the co-operative movement in that province to raise its rate of interest against the ryot. I am only concerned with the ryot, and not with the profit of the bank. D'd the first thing happen, *i.e.*, did this action of the Imperial Bank compel the co-operative bank in Madras, provincial and central, to curtail the advances they were making to the ryots?

5092. *Mr. Ramdas Pantulu*: By saying that the Imperial Bank withdrew fluid resources, I understood you as meaning that the Imperial Bank

did not give overdraft on the security of the co-operative paper, but insisted on the whole thing being backed by Government paper?—Yes.

5093. It is not a question of curtailing fluid resources?—No.

5094. Take the case of the Urban Bank which receives deposits at 5 per cent., and lends to central banks at 6 per cent. The central banks give them at 7½ per cent. The margin in the one case is 1 and in the other 1½ per cent. If you are compelled to keep the whole of the fluid resources in Government paper, your profits will go down and therefore you can recoup your losses by putting up your lending rate to the central banks, the central banks putting up their rate to societies and the societies in their turn putting up their rate to the ryots. You are not on the question of adequacy of resources at all?—No.

5095. The Madras Central Urban Bank now relies on the Imperial Bank's overdraft on co-operative paper to return the deposits. If it is called upon to meet liabilities of 45 lakhs all on a sudden it will be greatly upset without the overdraft. It will have to default or to borrow at high rates or return deposits.

5096. Either there will be curtailment of credit or there will be putting up rates of interest unless you have large amounts of money to meet emergencies, because the position of a provincial bank is as a balancing centre; it not only takes deposits but also all the surpluses of the central banks with the corresponding obligation to meet demands suddenly?—Yes.

5097. *Chairman*: That does not meet my point. I was trying to find out what the facts were. The instance you gave was not an instance of a rush on the bank from its ordinary depositors. It was a demand from the Imperial Bank for the return of 45 lakhs of rupees (I shall take your figure as the correct one). You said that the provincial co-operative institutions had to give up 45 lakhs to the Imperial Bank. Because they had these securities, they were able to meet the situation without, firstly, reducing the resources available to the cultivator or raising the rate of interest against the cultivator. These are facts?—Yes.

5098. Therefore your statements simply support my proposition that you could have done without the cash credit of the Imperial Bank, with the help of the resources at your disposal?—This sudden demand from the central banks would certainly have depleted their fluid resources to a very dangerous extent.

5099. Did they? Has the Registrar of Co-operative Societies held that the fluid resources now possessed by the Madras Urban Central Bank are inadequate?—Not now, as they recouped their position during the last four or five months.

5100. The instance you quoted was one which happened last year. You unfortunately chose an illustration which every moment is going against you. If you had said that there was a rush on the part of the depositors proper, your illustration would have been unanswerable. My point really is that in spite of the Imperial Bank doing this, the co-operative movement has not suffered either in the matter of the money which it makes available to the agriculturist or in the matter of the interest which it charges to the agriculturist.

5101. *Mr. Ramdas Pantulu*: The Chairman's question can be answered by you if you know how these transactions affect the Madras Central Urban Bank as a result of the additional money having to be found by Government securities and if you examine the balance sheets as to what the profits were before and after this transaction, you will have an adequate idea. There cannot be any possible doubt, that the profits would go down when the entire overdraft is covered by Government paper.

5102. *Chairman*: I am not concerned with the profits of the Madras Central Urban Bank; have the resources available to the agriculturist been reduced?—The fluid resources of the movement certainly were reduced.

5103. I think you told us that the fluid resources now existing are not in the opinion of the Registrar of the Co-operative Societies inadequate?—Yes, not now.

5104. Leaving aside the fluid resources, you have admitted that there has been no reduction in the facilities available to the ryot. Has this affected the rate of interest charged to the ryot, has it been increased?—Not at present.

5105. I am only concerned with the present and I shall leave the question at that. You state that the promissory notes deposited in the Imperial Bank of India as collateral security may be previously approved by the Assistant Registrar or the Registrar. Will you kindly state whether you mean that the notes should be certified 'good' by the Assistant Registrar?—In Bihar and Madras the same system prevails, they are certified as 'in order' by the Registrar.

5106. You state that the recent decision of the Imperial Bank of India not to accept co-operative paper as collateral security must greatly embarrass the co-operative movement. Later on you state that the efforts made at co-operative marketing of agricultural produce are still very limited, and in order that these efforts may be more extensive and successful, adequate facilities for financing produce are needed. You have no doubt seen the views of the Provincial Banking Enquiry Committees on the subject of development of co-operative marketing. If so you must have noticed that nowhere it is suggested that the development is suffering from want of financial resources in the co-operative movement. Do you accept this position?—If not will you kindly state in which province the development is suffering from lack of such resources?—We have not said that the development is suffering from lack of funds at present. When we made that statement, we had an idea of the future developments of marketing.

5107. Have you any views to place before us on the subject of development of co-operative marketing?—We have not thought about it.

5108. You state that in big towns bills of exchange are also used in addition to hundis. Will you kindly explain which bills of exchange you refer to?—By big towns, I refer to ports and by bills of exchange I mean ordinary bills.

5109. You state that with a view to encouraging banking habit in the people Government and public bodies should accept payments by cheques on co-operative banks in payment of their dues. Will you kindly give us any figures to show how far the co-operative movement in your province has encouraged the cheque habit during recent years?—According to the statistical data published by Government although the fact is not quite clear, the total value of transactions including business done on remittance transfer receipts by cheques is said to amount to Rs. 8 crores annually.

5110. My question is with regard to the cheque habit of the people who operate through cheques on their current and savings bank accounts?—I am sorry, I have no details.

5111. Is it the custom to withdraw monies on current accounts with the primary banks by cheques?—This system is coming into vogue gradually.

5112. You suggest that income derived from Government securities held by co-operative banks should be exempted from payment of income-tax. What would be your answer to the criticism of one of the Provincial Committees that it is no part of the business of co-operative societies to invest a great deal of their capital in interest-bearing securities and that if they do so, they should, like other investors, be subjected to the deduction of income-tax from the return on such investment?—I have only to add this to what Mr. Roy on behalf of the Bihar and Orissa Provincial Bank told you in regard to this matter. A good deal of the amount is not invested in Government securities and when the excess of income over expenditure of co-operative banks is excluded from the application of the Income-tax Act, it will not be equitable to make the Act applicable to income at the source.

5113. There is no good of your putting that question to us. It is a thing for your Movement to answer. Therefore your view is that it is not equitable to make this charge?—Yes, that is so.

5114. *Mr. Ramdas Pantulu*: Is it not only as part of your business that you have to deposit your money in Government securities to enable you to meet urgent calls by keeping your funds liquid? So, you are not investing your money for investments sake?—No. We are doing it only as a part of our business.

5115. *Chairman*: It has been suggested that interest derived from Government securities held as an investment of the fluid Reserve should be exempt from income-tax but not the interest on securities held for any other reason, for example, temporary employment of funds during the slack season. Would that satisfy you?—I have nothing more to add. The arrangement will satisfy us.

5116. *Mr. Ramdas Pantulu*: Have you made any attempts in your province to start land mortgage banks?—No attempts have so far been made.

5117. Are there any great difficulties in the way of doing so?—No enquiries have yet been made in regard to this because the subject is considered to be still in an experimental stage.

5118. So all your long term requirements are being at present met through the rural credit societies. Is that so?—Yes, as far as it is possible.

5119. Do you think it is sound business to dispense long term credit through these rural societies?—It is not safe to do so.

5120. Therefore, is it your view that most of your troubles arise from the dispensing of long term loans through village organisations. Is that so?—That is exactly so.

5121. You are of the opinion that village societies are not fitted to give out long term loans?—Yes, I agree.

5122. *Mr. Devadhar*: From the trend of many questions that have been put to you in which the leanings of the Imperial Bank towards the co-operative institutions have come in for large criticism, may I ask whether you have noticed any definite change in the attitude of the Imperial Bank

with regard to the co-operative movement?—There has been some change during the last 3 or 4 years.

5123. Is that due to the method of working of the co-operative institutions?—The general belief is that the co-operative institutions are becoming very strong and also being Government managed bodies they are also gradually coming into competition with the Imperial Bank in regard to deposits, commission business, etc.

5124. Your idea is that because the bulk of the co-operative business is increasing, it has struck some fear in other quarters?—Yes, because the popular belief is that the co-operative banks are trying to do commercial banking as well, although it is not a fact.

5125. Could you tell me the total amount of the turn-over of the co-operative movement all over India compared with that of the turn-over of the Imperial Bank of India?—By turn-over I mean the basis on which profits are calculated. What is the turn-over of the Co-operative movement?—It is something like Rs. 30 crores.

5126. And what is the turn-over of the Imperial Bank?—

Mr. Lamond: I might tell you that it is over Rs. 70 crores. I might at the same time add that we have no such fear that the co-operative movement is working in competition against the Imperial Bank.

5127. *Mr. Devadhar*: The internal improvement which you suggest is more or less in regard to improvement of the delays which is caused to the borrowers from co-operative societies. Do you mean to say that they take a long time to decide whether an application for loan should be granted or not?—Of course, that causes delay.

5128. If that is so do you think it is due to something lacking in the Registrar's office or do you think it is due to delay in your Provincial Bank itself?—It is both.

5129. *Mr. Ramdas Pantulu*: Do your applications for loans come through the Registrar in Bihar and Orissa?—Yes. All applications for loans must first be approved by the Registrar before they are passed on to us for disposal.

5130. It is not so in Madras.

5131. *Mr. Devadhar*: Would you view it as an indication of a serious draw back in the existing co-operative machinery?—I would not call it much of a draw-back, but there is no doubt room for improvement.

5132. Supposing for argument's sake we say that nothing should be done in the matter of improvement of the existing co-operative machinery unless this defect is rectified, would you agree to that proposal?—It would be wrong in principle to do so.

5133. *Mr. Mukhtar Singh*: You say that the success so far achieved in co-operative marketing is conspicuous only where commercial crops like jute, cotton, jaggery, and oilseeds, are concerned. Can you give any reason why co-operative marketing has failed in other cases?—I do not say it has failed, but I only say it has not been so successful. My view is that it will succeed where the necessary concentration can be achieved with a view to export the produce for sale elsewhere.

5134. Do I understand from this that you consider co-operative marketing will be a success only in cases of exportable articles?—I do not mean or intend articles exported abroad. I refer only to articles not consumed locally but sent out to other parts of the country.

5135. In the case of articles consumed locally how is it you do not approve of co-operative marketing?—I like the idea no doubt, but my only fear is that it may not prove successful.

5136. I cannot understand why you make a distinction between the two?—The whole idea is that in the case of articles for local consumption there may not be enough crop for sale.

5137. *Chairman*: Is it your point that in the case of articles for local consumption the cost of management of the sale society would be high and so it would not be a sound business proposition?—That is another reason.

5138. *Mr. Mukhtar Singh*: Is it you view that such marketing should be restricted only to the persons who are members of the society or could it deal with the commodities of other producers as well?—That will go against the very idea of co-operation if non-members are permitted to have a share in these sale societies.

5139. How is it so?—The members will anyhow have a distinct advantage over non-members, in that the former will not have a share in the profits while the latter will?—That will then reduce a co-operative society to the status of a commission house.

5140. *Mr. Ramdas Pantulu*: What we found in the Madura district in Madras was that the middle-men used to purchase the goods from the raiyats and sold them through the societies and made all the profits. So it is that we had to make a definite recommendation in the Report of the Townsend Committee that the whole business should be confined to members.

5141. *Chairman*: The non-members will make use of the society as and when it suits them to do so and there will not be a moral binding on them. Is that not so?—Yes.

5142. And even in the case of members loyalty has been found wanting and that is the reason why in many provinces these co-operative sale societies have failed?—That is quite true.

5143. *Mr. Devadhar*: It is being gradually realised now that unless some such facilities are given to the agriculturist to enable them to repay regularly their loans, it would be impossible for the co-operative banks to make any advance, which means that the agriculturist will be discouraged in having dealings with the banks?—I can quite see your point.

5144. *Chairman*: There is the sales society. The agriculturist for the crop finance has got to go to the sowcar because there is no credit society working in conjunction with the sales society. If he has got to get his finance for his crops from the sowcar, then he goes into the clutches of the sowcar and must take his produce to the sowcar. There is no help for it. Now, if there is no legal obligation and if on a certain occasion the agriculturist does not take his produce to the sowcar, the sowcar will say, "You took money from me but you took your crop to the sales society. Therefore now do not come to me for help; go to your sales society for the finance you need ".

5145. *Choudhari Mukhtar Singh*: To whom do you sell his produce?—It is sold to the merchants; there is a market for it.

5146. So it is like the other banya shops?—With the difference that the profits in a banya shop belong to the banya himself whereas the profits in this sales shop go to the society.

5147. In your memorandum, you have said, "The Co-operative Banks under letter No. 1244-A. G. R., dated the 29th September 1924, from the Secretary to the Government of India in the Department of Education, to the Provincial Governments, are forbidden from doing any exchange business.". What do you mean when you say that Government has forbidden you from doing exchange business?—We mean free remittance business for the purpose of exchange business.

5148. *Chairman*: Mr. Mukhtar Singh, kindly read further and you will find what the Government's intention is. It is clear that they have no objection if you remit your money on your own account.

5149. *Choudhari Mukhtar Singh*: In the next paragraph you say again "Exchange business is a perfectly legitimate business for co-operative banks and societies to undertake". Do you here also refer to free remittance business?—Yes.

5150. In your memorandum, you say, "The Royal Commission on Agriculture in India in discussing the form of State-aid recommended that the most suitable form in which State-aid can be granted to the Co-operative Movement, is to guarantee interest on debentures issued repayable in 20 or 30 years with a view to provide the much needed long term capital for the movement at a reasonably low rate of interest ". Do you mean to say that Government should make money available to you?—Our intention is that Government should only guarantee interest on long-term debentures for the finance of the societies.

5151. What is the duration of the advances you have made for land improvement?—5 to 10 years.

5152. In cases where the improvement is made in the land, does the Government enhance the revenue also on account of that improvement?—In Bihar and Orissa we have the zemindari system; so there is no enhancement of rent. It is a permanent settlement.

5153. Do the zemindars themselves make any improvement?—We do not know any such cases.

5154. *Mr. Ramdas Pantulu*: Are the members of your society tenants of permanently settled zemindars?—They are only tenants.

5155. No man whose rent is settled permanently is a member of your Association?—No.

5156. *Choudhari Mukhtar Singh*: In your memorandum, you have suggested, "With a view to encourage the marketing on co-operative lines of the agricultural produce of members of societies, cheap and long term capital is required for the acquisition or construction of godowns in rural areas. The Co-operative banks of the country are not in a position to provide the required capital at a low rate of interest for the long period it is required,". Here, are you referring to marketing societies or to the sale and purchase societies?—There are no marketing societies; we have only purchase and sale societies; but godowns are certainly required for which a lot of capital would be required:. As it is, the societies have not got any godowns of their own.

5157. *Mr. Ramdas Pantulu*: On this question of the erection of godowns for the storage of the produce, let me tell you that the Madras Government have been very generous in promising to lend money at 5½ per cent. to the sale societies, if the latter are going to build godowns. But what we have found actually is that the outlay on the erection of godowns at 5½ per cent. comes to so much that the rent that can be expected to be realised from these godowns does not cover even the interest. Therefore we are not able to take advantage of the Government's generous offer. Do you therefore expect the Government to advance money to the sale societies at less than 5½ per cent. when they themselves are borrowing at times at 6 per cent?—Even at this rate we are not able to have the benefit of the Government's offer as the rent that can be realised from the godowns is hardly sufficient to cover the interest at which the Government is prepared to lend.

5158. Therefore unless the Government were able to make a free loan or a loan at a very nominal rate of interest, the concession in your opinion would be immaterial?—Quite.

5159. *Choudhari Mukhtar Singh*: Have you studied co-operative banking as it is practised in the United Provinces?—I have studied the reports of the Registrar.

5160. Can you tell me why they have not made any headway there?—Perhaps the societies are not functioning well there; but I have no personal knowledge.

5161. *Mr. Rushforth*: Why should you ask for favoured treatment for your investments in Government securities?—I think you know that the profits of the co-operative banks are exempt from income-tax. If the balance of income over expenditure is exempt from the operation of the Income-tax Act, then it would not be proper to charge income at the source. That would be worse still.

5162. Supposing you invest in income-tax-free Treasury Bills, would you ask for a subsidy?—Treasury Bills have been introduced only recently; they have not been in force for more than two years.

5163. But would you to that extent ask for a subsidy?—It is not a subsidy we want. All that we say is that if the profits are exempt from income-tax, it is not equitable to charge income at the source.

5164. Has your Movement done anything to tap the hidden hoards of India?—All the Provincial Committees have reported that the Movement has done that.

5165. *Mr. Ramdas Pantulu*: If you are to maintain fluid resources in the form of securities and such securities are exempted from tax you have no grievance?—We have got to keep that under the statute. In assessing our profits and losses, supposing a society makes a loss still we shall have to pay tax on the securities as a separate item.

5166. *Mr. Devadhar*: You say that you do not claim assistance from Government by way of subsidy but that you would like to secure exemption?—Yes.

5167. I think you admit that the nature of the work done by the Co-operative Movement is more by way of social service than by way of profit-making. Well, if that be correct, then I think that the demand for exemption should come under the category of social service?—I admit that the Co-operative Movement was not started with a view to making profits.

It was designed more to render social service to the community than to function as a mere business concern for the sake of earning profits.

5168. *Chairman*: The point is that under some local provision or under the terms of the bond the society has a prior claim on that land. Is that not so?—We are required to mortgage the property with the society and then only the loan is advanced by it.

5169. Thereafter if he goes to a sowcar and takes a loan from him, there will be a second mortgage. If again thereafter the society gives a third loan, the society's loans have precedence over the loans given by the sowcars?—Yes.

5170. *Mr. Lamond*: Does this statement apply to the whole of India?—I have made a general statement; it applies to the majority of the provinces.

5171. *Choudhari Mukhtar Singh*: Even if it be a loan for two years you will take a mortgage for the land?—Generally in Bihar and Orissa we take mortgages if the amount of the loan exceeds Rs. 100.

5172. *Chairman*: Therefore it is not a question of short-term loan?—It is not a question of short-term or long-term loan. We take a mortgage in all cases where the amount of the loan exceeds Rs. 100.

5173. *Mr. Lamond*: So that your remark really applies to Bihar and Orissa?—I have said that it applies to most of the provinces.

5174. *Chairman*: What is now disclosed has a very important bearing on the point raised by you. It is not a question of short-term or long-term loans even in Bihar and Orissa. The mortgage is taken only in the case of loans which exceed a certain amount; that amount in the case of some societies is Rs. 200, in the case of some others, Rs. 100?—That is so.

5175. *Mr. Buckley*: Are these mortgages registered, and if so with whom?—They are registered with the local registration authorities.

5176. *Mr. Lamond*: In your memorandum you make a suggestion that co-operative banks ought to be allowed to use Government funds for the purpose of doing exchange business at places where the Imperial Bank has no branch, and refer to currency locked up in Government treasuries What particular funds do you refer to as locked up in Government treasuries?—I refer to revenues collected.

5177. They are placed in the currency chest in treasuries?—It takes some time for them to be released.

5178. The Government at present issue supply bills and telegraphic transfers on all producing centres at 1/16th per cent. You propose to take over the Government funds, do this exchange business which Government is now doing and take the profit. Is that a fair proposition?—I think our proposal is that supply bills and telegraphic transfers should be supplied to co-operative societies at par.

5179. Why should you take the commission which Government is now making on these transfers?—For expeditious transfer of funds.

5180. Suppose I am a cotton merchant in Bombay. I want two lakhs of rupees at, say, a sub-treasury in Berar, where the bank is not represented. I go to the Treasury in Bombay, pay my money *plus* exchange and get two lakhs at the sub-treasury. You say that is putting down the co-operative bank. Government will have received that money, shroffed

it, kept it ready for payment and instead of getting its profit of 1/16th, you say they should give it to you for nothing?—The supply bills are issued under some previous arrangement.

5181. My point is that Government will be transferring the profit they are now making on these transfers to the co-operative movement?—Government is not doing it for profit.

5182. They are moving their funds from the upcountry treasuries to Bombay by issuing supply bills on which they get 1/16th?—But they never issue unless they have funds for transfer.

5183. *Chairman*: The point is this. In your memorandum you say " If therefore a means can be devised to release the currency locked up in Government treasuries for the use of local merchants through co-operative banks by permitting the latter to do exchange business, the feeling of stringency is sure to be less acute with the passage of time ". Mr. Lamond says that there is no question of funds being locked up, because at the treasuries where money is collected, it is immediately placed into the currency chest as currency reserve and money is taken from the currency chest at some other place where there is a demand for it. Therefore what you suggest will not in any way help the feeling of stringency, because under present arrangement the money is transferred without any delay to the place where it is required. To this you have not given any answer. All you said was that Government should give you the concession to transfer funds by telegraphic transfers. Mr. Lamond asked you whether this arrangement would not result in your getting the income which now accrues to Government and therefore to the general tax-payer. Even to that you have not given any answer. You said that this transfer will not take place. There is no doubt that it will take place. At present Government is receiving a certain income and that income, I think, goes to make up for the cost of remitting money between the different centres.

5184. *Mr. Lamond*: The point is that Government are enabled to transfer their revenue from a producing centre to a main currency office.

5185. *Chairman*: Your proposal amounts to a subsidy, *i.e.*, you say that the tax-payer should forego this income and hand it over to the co-operative bank without any reduction in the labour of Government in connection with the shroffing of currency.

5186. *Mr. Ramdas Pantulu*: Yo say in your memorandum that "the land revenue so collected accumulates in Government treasuries without any outlet whereby it could be made available for the financing of local trade. The agriculturist at the same time markets his produce and the merchants require money in mofussil towns for its purchase. At this time of the year the Government treasuries in mofussil towns possess funds but cannot release them for the use of local merchants." I want to know why they cannot release the funds?—They do not release the funds locally. By treasuries I include sub-treasuries also.

5187. *Chairman*: Do you agree that the statement "at this time of the year the Government in mofussil towns possess funds but cannot release them for the use of local merchants" is not a correct statement?—I was not aware that Government released funds locally.

5188. *Dr. Hyder*: You say that co-operation should be included as a subject for study for the examination of the Institute of Bankers. You are a banker?—Yes.

5189. Is there any difference between co-operative banking and any other kind of banking, say, commercial banking?—What you really want, is that the law applicable to co-operative banks should be known to the people so that boys who really want to go back to co-operative societies which need their service as bankers should know what the law applicable to co-operative societies is?—Yes.

5190. Have the boys who appear for such an examination also to take up a thorough study of the Act?—The Act will not help them much in co-operative banking, because there are other technicalities too. The functions of co-operative banks and co-operative societies are different from those of joint stock banks.

5191. *Mr. Lamond*: Would you propose then that the candidates for co-operative banking should have a special examination?—I would suggest that it should form a part of their training.

5192. Of every candidate?—Not for commercial banking.

5193. You would have a separate paper for co-operative banking?—Yes.

5194. Is not that a matter for the Society of Co-operative Bankers? Would it not be better to have a separate Institute?—No.

5195. *Mr. Ramdas Pantulu*: Most of the principles of banking are the same; therefore, if you want to get a proper employee for your bank, you not only want a man who knows something about co-operative banking, but one who knows all about banking. Therefore he will be fully qualified if he gets his training in the Institute of Bankers and all that would be required would be a separate paper on co-operative banking.

5196. *Mr. Lamond*: There is a difficulty in that the co-operative banks cannot expect to employ boys who pass the examination from the Institute of Bankers as they would already be in a bank. You will therefore have to train your own men.

5197. *Dr. Hyder*: There was a question about income-tax. It seems to me that if you choose the treasury bill, you can escape income-tax altogether?—We cannot invest all our money in treasury bills, because the period is very limited.

5198. Treasury bills are more liquid than the other securities?—The yield in comparison is also very little.

5199. How many years have you been the Secretary of this Association?—This Association was organised only two years back.

5200. How long have you been in the co-operative movement?—For nine years.

5201. You say that the margin between the lending rate and borrowing rate is diminishing?—It is.

5202. Your view is that as the Co-operative Movement spreads this margin becomes less and less between the lending rate and the borrowing rate?—Yes.

5203. For the margin to diminish or for these two rates to approximate to each other, either the lending rate must fall or the borrowing rate must go up?—The borrowing rates are decreasing, the lending rates are also decreasing. The point is that if the lending rates decrease at a faster rate than the borrowing rates, the margin also decreases.

5204. I cannot understand the statement in your memorandum where you say: "The variations in the lending rates of Provincial Banks to Central Banks in different provinces are due, either to the different monetary conditions of the places served by the Provincial Banks, or to the latter's inability to raise the required money at a lower rate due either, to the rapid expansion of the movement, or to its recent organisation." You say that in some provinces there is a variation in the lending rate and you say either it is due to certain monetary causes or it is due to inability of these banks to borrow more money?—You must take the paragraph as a whole and not an isolated sentence. In referring to variations in the lending rates of Provincial banks to Central banks, I have in view the lending rates of different provinces.

5205. Therefore in some provinces the leading rates must also go up?—They do not go up or go down. there is a difference between the lending rates of provincial banks and central banks in different provinces.

5206. You say that in some provinces there is this difference, in others there is so much difference?—I have explained the differences between the lending rates and borrowing rates. *e.g.*, the lending rate of Bombay is lower than the lending rate of Bihar. This has no connection with the margin, the margin is on the decrease.

5207. Is it correct to say that as the co-operative movement spreads co-operative banks will have to pay more to attract deposits?—No. What I have said before, and what I submit again, is that the borrowing rates are certainly decreasing, but the lending rates are decreasing faster.

5208. *Mr. Devadhar*: You said that you follow certain canons so far as apex banks were concerned. Are not the canons of co-operative banks the same more or less?—There is slight difference.

5209. When loans are sanctioned by co-operative institutions, you generally take into account 33 per cent. of the value of the assets?—Yes.

5210. Whereas when loans are negotiated by a commercial bank or a joint stock bank, sometimes on the strength of the block, the money advanced is something between 40 to 50 per cent?—That is so.

5211. It is not therefore the case that those who are in charge of the co-operative banks take greater precaution about their finance than the ordinary commercial banker?—Quite.

5212. Is not there a greater restraint?—There is certainly greater restraint.

SEVENTEENTH DAY.

15th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman.*)
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman.*)

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Mr. MANU SUBEDAR.
Dr. L. K. HYDER.
Mr. V. RAMDAS PANTULU.
Mr. W. LAMOND.
Lala HARKISHEN LAL.
Mr. R. W. BUCKLEY.
Mr. JADU NATH ROY.
Choudhri MUKHTAR SINGH.
Mr. JAMAL MAHOMED.
Mr. NALINI RANJAN SARKAR.
Seth HAJI ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary.*)

Professor P. J. Thomas, **Professor of Economics, Madras University** was examined.

5213. *Chairman*: You are Professor of Economics in the Madras University and you were also a member of the Madras Provincial Banking Enquiry Committee?—Yes.

5214. You have put in a note in the Report of that Committee and you have practically sent us a copy of that note as your memorandum and you wanted to be orally examined by this Committee on the basis of that. Is that the position?—I did not simply copy out the note. I have taken relevant portions from the same and have also modified the same in certain respects.

5215. Except that you have not sent to us the first part of that note, you have sent us all the other relevant portions. Is that so?—Yes.

5216. Your memorandum is less comprehensive than your minute of dissent?—That is so.

5217. You are of opinion that a more careful study of mortgages than has been hitherto attempted seems to be absolutely necessary not only for estimating the total indebtedness of the Madras Presidency but also for ascertaining whether as a result of indebtedness land changes hands nearly every generation. The usual information available in the Sub-Registrar's office is not sufficient in your opinion and you suggest that to draw reliable conclusions we should have to carry out detailed enquiries into the history of mortgages in typical regions and must trace the course of each of the mortgages registered in the last 10 or 12 years. Can you give us an idea of the machinery required for such an investigation and whether you think the results obtained would be commensurate with the trouble and expense involved?—A more careful study of mortgages is, in my opinion, necessary for various reasons. Firstly, mortgages seem to

be more common in Madras than elsewhere perhaps due to the predominantly ryotwari tenure. Thus, while the United Provinces with a population of 45 millions has only an average annual mortgage debt of Rs. 7·4 crores, Madras with a population of 42½ millions has had for the last 10 years an average mortgage debt of Rs. 20 crores. Yet in some of the northern districts land owners are said to be averse from mortgaging their land. This is not true of the greater part of the presidency. Thus, mortgage debt is the very core of the problem of indebtedness. Secondly, several witnesses who appeared before the Madras Committee have pointed out that land changed hands very frequently in the villages. If the purchasers are agriculturists, not much harm is done economically by such a change, although socially it may be an evil, but if land passes into the hands of non-cultivating money-lenders, that may result in an economic as well as social loss to the community. The enquiries so far made, which are meagre, do not help us very much, but judging from the growth of tenancy at the expense of ownership in the presidency, the presumption is that a good number of the new owners are non-cultivating. This point requires to be ascertained. Thirdly, if the operations of the Land Mortgage Banks are to succeed, we must have an accurate picture of the causes and modes of mortgages and their many sided economic incidence. Lastly, it is also worth while verifying the accuracy of the assumption made in the Madras Report that the total mortgage indebtedness at any time may be obtained by adding up the mortgage debt of the three previous years. In my minute I have shown reasons for dissenting from that view. The best mode of carrying out such an enquiry would be, first to divide the province into a few natural regions, and then to study all the mortgages in a few typical villages in all of those regions. The bare facts of the mortgages may be obtained from the Sub-Registrars' offices, but the actual history of the transactions can be studied only by going to the villages and answering a questionnaire in regard to each mortgage. Side by side with this, I would also advocate an extensive enquiry to be carried out by circulating a general questionnaire among Registrars of each district. I have already prepared both the questionnaires and I propose to get two research students to carry out this work, but the nature of the work is such that no satisfactory results could be achieved without the active co-operation of registration and revenue officers. Whether such help will be forthcoming or not, I do not know; but my experience is that officers of Government are generally reluctant to supply such information. The cost of such an enquiry cannot be large. Four investigators on Rs. 75 per mensem (*plus* travelling allowance) working for six months or a year will be able to gather as much information as is needed for the general purposes in view. Accurate statistics exist in all civilised countries about mortgage indebtedness and they are serviceable for more purposes than one. Now that we are engaged in devising schemes for agricultural credit, an enquiry like the above seems to me of prime importance.

5218. Am I correct in assuming that you consider that 4 investigators on the salary you proposed will be able to carry out the intensive and extensive enquiries contemplated by you?—Yes, they will be able to carry out the intensive enquiries in a few selected areas only.

5219. Therefore, you do not want this intensive enquiry to be conducted throughout the province but only in typical villages in certain selected regions of the province?—Yes, that is my point.

5220. And for this purpose you consider 4 investigators on Rs. 75 per mensem for 6 months would be adequate?—Yes, provided the right type of villages are chosen with the help of the revenue and agricultural officers.

5221. What advantage would you derive from such an investigation? Your first point was that the Madras Committee made a mistake in assuming that the mortgages are for 3 years. Here, Mr. Hood has explained the position in a supplementary note published in the Madras Report. He says "It has never been suggested that mortgages last only 3 years but it was suggested that while some are paid off and others increase, some are cancelled or superseded after a year and others persist for 10 or 12 years before being cancelled or replaced by a new document, on an average they last about 3 years, but at any time that average includes some of only one year's duration and many others of much longer duration than three years. Mr. Thomas' figures in part support this contention". What is your view?—What I have said is that the average of 3 years will give only a portion of the total mortgage indebtedness. Most mortgages run a longer term and a large number lasts the limitation period of 12 years and they are ended by selling the property. The conclusions of the Bengal and the United Provinces Committees seem reasonable.

5222. You said that conditions in Madras were special because in Madras settlement was mostly ryotwari. What about Punjab? Do you know that zemindars there really mean agriculturists?—I suppose it is so.

5223. Therefore you do not know apparently the conditions all over India?—My knowledge is certainly not perfect, but I know Mr. Darling has made a special study of this in Punjab, and I am acquainted with it.

5224. What enquiries that Mr. Darling has made have been made for the purposes of his book. Is that so?—I suppose it is so.

5225. Do you know in how many villages he made this intensive enquiry for the purpose of his book?—I cannot say that offhand, but I think he did make enquiries in several villages.

5226. From the Punjab Report it is not clear whether they made any intensive surveys or not, as you suggest. You said that these surveys are required for the purpose of Land Mortgage Banks. How will that enquiry help you?—We can find out the nature, conditions and incidence of mortgage indebtedness.

5227. That will not prove to be of much use for the Central Banking Committee. It may or may not be a matter for Provincial Governments to act. When the Board of Economic Enquiry comes into being as suggested by your Committee, it will be for that body to make further enquiries into the matter.—I admit that so far as the question of commercial credit is concerned, such an enquiry will not be much helpful, but in the determination of the best means for providing agricultural credits such an enquiry may be useful.

5228. Is it your submission that until such a careful enquiry has been made land mortgage banks should not be started?—They have already been started in Madras.

5229. Therefore how do they affect the question of agricultural credit for long term or even the establishment of a long mortgage bank. When the necessity for long term loan has been established and banks have already been started for doing long term business, I don't see how a more accurate estimate of the period of mortgage can affect even the question of rural

finance?—A Land Mortgage Bank no doubt transforms old mortgages into periodically repayable mortgage debt, and in doing so it requires exact details regarding the nature of indebtedness, etc.

5230. Before they pass final orders sanctioning a loan do not the Land Mortgage Banks make their own enquiries? (Am I correct in my statement, Mr. Ramdas Pantulu?—Mr. Ramdas Pantulu: Absolutely).

5231. *Chairman*: I hope the Board of Economic Enquiry when established in your province will seriously take up this question. My point is that this Committee has nothing to do with these intensive surveys you are referring to?—What I say is that lands are passing away from the hands of cultivators into those of non-cultivators.

5232. That again is a matter which does not arise from the banking point of view.—I admit it is not the case of the banking question.

5233. Therefore, you do not think that this Committee need stay its hands in order to enable the enquiry suggested by you to be made?—I never intended to suggest it.

5234. If this Committee endorsed the suggestion made by your Committee and almost all other Provincial Committees in regard to the formation of a Board of Economic Enquiry as it exists in the Punjab, would that satisfy you?—The United Provinces Committee for example has made a more thorough study of mortgages and for the sake of uniformity and for the supply of similar information about other Provinces, such a supplementary enquiry seems to be necessary. If, for example, the Government of India wanted to have accurate information regarding long term credit all over India they will be able to get it so far as the United Provinces is concerned from that Province's Report, and perhaps of certain other Provinces, but if they turn to the Madras Report they will find very little concerning it, although Madras ranks first among the Provinces in the matter of mortgage indebtedness.

5235. You will find that every Provincial Committee has said that time did not permit them to make accurate enquiries and the details which they have arrived at are more or less guess-work. It is quite possible that for administrative requirements better estimates are required. In every Provincial Report you will find estimates and they themselves admit that they cannot fully vouch for the estimates and every one of them say that further investigations should be made and they end up by making a recommendation for the establishment of a Board of Economic Enquiry. That is a concrete proposal which in view of what has been stated my Committee would be justified in supporting if they thought it necessary to do so but in regard to going into details in what direction this intensive enquiry should be done is too much for this Committee to be asked to do?—My point is, now that we have a comprehensive enquiry on hand, would it not be better if you made a recommendation to the various Provinces pointing out the deficiencies in the information collected by them and the further lines on which they should supplement the information so gained.

5236. That is not our business at all except possibly to support the recommendation of the Provincial Committees in regard to the establishment of Boards of Economic Enquiry as I have already said. Having done so, it should thereafter be left to the respective Board to find out whether the enquiry made by the Provincial Committee is defective or

inadequate in any respect and then supplement it by further intensive enquiries. Anyway, we will leave it at that.

5237. *Mr. Ramdas Pantulu*: I have made certain enquiries in regard to this matter and I am led to believe that it is impossible to get at the purpose for which the original loan was made; I am also convinced that no Economic Board Enquiry, such as you suggest, can succeed in ascertaining the exact purpose. My feeling is that it cannot help very much the banking problem either.—I am afraid I do not agree. I maintain it is possible in a majority of cases to discover the exact object for which a loan was originally taken provided thorough and searching enquiries are conducted on the lines I have suggested. I am not advocating any exhaustive enquiry; I only recommend a study in typical regions so as to have an accurate picture of the whole thing.

5238. Have you read the mortgage bonds yourself?—Yes, I have, and that is just the reason why I am not satisfied by the statements in the bond. But the facts could be ascertained by enquiry on the spot. The intensive enquiries conducted by the Madras Committee, unfortunately did not include the mortgages as a speciality and so not much useful information was collected by the investigators in that line.

5239. Do you know that no land mortgage bank ever cares to enquire into the *object* of the binding prior debt?—My point is that an enquiry of the kind will help you to find out why the debt increased and that might enable you to prevent (at any rate place a check on) the ryot borrowing unnecessarily.

5240. *Chairman*: How can you make it impossible for the ryots to incur debt? I have gone into this question deeply with the Land Mortgage Bank authorities at Bangalore and I admit that it is impossible to take any practical steps which will prevent the agriculturist from contracting a debt. All that is probably done is that on the security of the land, on which loan has been given to the agriculturist by the land mortgage bank, further loan can be given to him by the ordinary money-lender. Of course there are other ways too.

5241. *Choudhari Mukhtar Singh*: On page 81 of the Madras Committee's Report we find "The effect of such indebtedness is the constant change in ownership of land. But the bulk of the lending is done by ryots and the land changes hands from one ryot to another." Now this is a definite finding by your Committee?—I do not think that statement is correct, unless you include in the term "ryot" non-cultivating land-owners.

5242. Do you mean to say that this is only an impression of the members of the Committee and that it was not based on regular investigation?—I cannot say that, but I can read out passages from the written memoranda submitted to the Madras Committee to show that land has passed from the cultivating to the non-cultivating classes.

Chairman: Mr. Mukhtar Singh, I think that factor does not affect our deliberations and conclusions.

Choudhari Mukhtar Singh: It does affect us, Sir, in this way. If the land is passed from the cultivating to the non-cultivating class, we have to provide against that contingency.

5243. *Chairman*: We as a banking Committee? I have read the Central Provinces Report which says, the less impediments there are on

the transfer of land, the better chances of the agriculturist getting credit, and with this view Dr. Thomas agrees.

5244. As regards the Nidhis and Chits you think sufficient information has not been gathered and that therefore you are not in a position to assent to the conclusions covering their present position and future working. Will you tell us if there is anything in the conclusions or recommendations of the Madras Committee that is not warranted by any information that you possess?—My chief criticism of the report is that it has not gone far enough. The conclusion that the Nidhis of to-day have been working on better lines is unwarranted by the following facts:—

(i) The first Nidhis were all mutual benefit societies, pooling small savings of people; to-day most of them are profit-making commercial banks.

(ii) Although Nidhis come under the Indian Companies' Act, the bye-laws of several Nidhis provide for the reduction of share capital without reference to court. Share loans are common with most Nidhis and these undermine their stability. The oral examination of Mr. C. V. Venkataramana Iyengar has brought out this fact very vividly.

(iii) Several witnesses who came before the Madras Committee have given evidence about the questionable practices of the Directors of Nidhis. I will read out to you in this connection what Mr. L. W. Thompson, Income-tax Officer at Coimbatore, has said. He says, "Unfortunately however, owing to the confidence previously engendered in the public numerous other Nidhis have sprung up which are not properly conducted. The banks' secretaries or managers concerned have been running this type of Nidhi purely for their own personal profit. They get money from the confiding share-holders and instead of investing it to the best advantage, they make loans to people of no standing and to their relatives or other friends. and in a few years' time the Nidhi has to go into liquidation owing to its being unable to recover the loans advanced. These failures, which have been increasing in number in the last two or three years are beginning to shake the confidence of the investing public so that even the well-conducted Nidhis are feeling the effects and the prospects of fresh Nidhis being formed are greatly jeopardised. The Registration Department exercises no proper control and although there are numerous instances where prosecution is called for and is desirable in the public interest they go scot-free because there is nobody to take the matter up and hold the necessary investigation. The share-holders are either too ignorant or too poor to move in the matter and the directors are close friends or relations of the Secretary." I have quoted all this to show some of the questionable practices, which require to be closely watched in the interests of the public.

(iv) There are too many varieties of them, ranging from the pure mutual benefit society to the profiteering commercial bank living on usury.

5245. But the Madras Committee have in paragraph 460 of their Report said, "We do not think that it is desirable to standardise and stereotype an institution which is still in an evolutionary stage".—I do not agree with the Committee on this point.

5246. Further, in the same paragraph, they say, "The fewer different kinds of banks and institutions there are the easier will it be for the general public to get to know the details with which they must be familiar if they are to take the fullest possible advantage of the facilities provided."—Now there is a contradiction in that. I am of opinion that they must be brought under one of two categories: either they must become in name as well as in fact commercial banks; or they must elect to remain mutual benefit societies.

5247. I think that in making that recommendation the Madras Committee's intention is that no drastic steps or changes should be made in regard to institutions particularly in an evolutionary stage, though they admit that the ideal should be as stated in the last sentence of paragraph 460 of their Report. But my point is that even admitting that the statements to which you refer are not wholly correct, does the inaccuracy affect their suggestions for development which are given in paragraph 462 of their Report? It is these that we are really concerned with. If the Central Committee are going to examine the accuracy or otherwise of every line included in the Report, obviously they will have to do the entire work all over again. We must therefore look to their specific recommendations. In paragraph 462, the Madras Committee recommend that these Nidhis should be developed in strict conformity with the Indian Companies Act.—That can hold good only if the Nidhis become joint stock banks; but most of them are working as mutual benefit societies only to help their own members.

5248. Don't you think that it would be better if they were absorbed in the Co-operative Movement?—That was the idea originally, but when the Co-operative Societies Act was passed in 1904, it was not done. In my opinion it would be possible to bring some of the genuine Nidhis of the old model into the Co-operative Movement.

5249. *Mr. Khaitan*: In addition to the point raised by you in your evidence, is there any other point that you would like to place before the Committee?—There are many cases of fraudulent action.

5250. Is there anything else apart from fraud?—There are malpractices which are referred to by certain witnesses who appeared before our Committee. I am not in a position to read out to you the passages, as I have not got the books.

5251. Could you send us a note setting forth the points which would require the Committee's consideration?—I shall do that.

5252. *Sir Purshotamdas Thakurdas*: In paragraph 7 of the Minute of Dissent you say that "the questionnaire contains no specific reference to the Nidhis, and naturally there is little information about them in the written evidence." In the questionnaire issued by the Madras Provincial Committee a note is given: "By indigenous banking is meant all banks and bankers other than the Imperial Bank of India, the Exchange Banks, Joint Stock Banks and Co-operative Banks. It includes any individual or private firm receiving deposits and dealing in hundis or lending money."

Do you not think that this made it clear to witnesses that 'Nidhis' were included under the heading indigenous banking?—Yes, only in a general way. The verification of this lies in the fact that the memoranda that came from Coimbatore (which contains nearly half the total Nidhis) contained very little information about them. Had they been asked pointedly, more information would have been forthcoming.

5253. Your complaint is that in your questionnaire the word 'Nidhi' is not specifically used and referred to?—Yes.

5254. May I ask if you suggested it when the questionnaire was drafted?—I certainly did it.

5255. And it was turned down?—Yes. I said that 'Nidhis and chits' should be specially enquired into as they are not found in other parts of India, and as they show features which need careful watching.

5256. You feel that if in the questionnaire the words 'Nidhis and chits' were specifically used, more witnesses would have dealt with these institutions than have done at present?—I think so.

5257. And the Committee turned it down when the questionnaire was being drafted?—Yes, even afterwards I urged that the matter should be enquired into further, but it was put off and later we found we had not the time for it, and therefore I shall not blame the Committee. I might also say that at the bottom of it all was the assumption held by certain persons, that what Sir Frederick Nicholson wrote in 1895 held good at the present time. It was definitely pointed out that it was not so and that considerable changes had taken place, but until the Committee actually went to Coimbatore—which was in March—this was not recognised and hence the trouble.

5258. May I draw your attention to Mr. Hood's reply to your minute regarding nidhis and chits where he says 'All the evidence which Mr. Thomas asked for regarding these was obtained. He further suggested that the Committee should go back to Coimbatore to study the matter again. The majority of the Committee considered that this was quite unnecessary as it had already camped in Coimbatore for some time but it was suggested that if Mr. Thomas wished he might go back to Coimbatore and himself make any further enquiries he saw fit. He declined to do so?"—Further enquiry was being put off and the suggestion that I might go was made to me when we were discussing the middle or later chapters of the report. It was certainly too late and the Chairman, who made the suggestion, expected me at the same time to remain in Madras and join in the discussion of the Report.

5259. Mr. Hood does not say when he suggested it.—It was done when we were daily discussing the final draft of the report and hardly two weeks before we signed it. We had to do it all in a hurry as the Committee had to be wound up on the last day of April.

5260. The report of the Madras Provincial Banking Enquiry Committee says that "there are in existence at present 228 nidhis about 70 years after the first was founded." Then a list of nidhis in distress is given. But can you direct me to anything in the report which gives information as to the total number of nidhis registered since the institution was started the total number which has gone into liquidation and the number at present on the list as working nidhis?—All the information that the Committee gathered is in the report; I do not think we have gathered any other information.

5261. Can we get them?—We can certainly get them from the Madras Registration offices and other sources.

5262. It is said that in ten years 118 liquidations have taken place. What would be the total number of liquidations in 70 years?—It must be a large number. In 1925-26, large numbers were wound up.

5263. Your Committee did not go into it?—No.

5264. Was it a very laborious task?—Possibly the importance of it was not grasped, or grasped only at the last moment.

5265. *Chairman*: In paragraph 17 of your note you stress the need for a rediscounting system with a growing bill market and in paragraph 24 you suggest that a concentrated effort must be made for the education of businessmen in the use of bills. Will you kindly state by whom the effort should be made and what practical steps should be taken to encourage the use of bills? Are you aware of any practical difficulties that stand in the way of businessmen or bankers in the creation of a bill market and the development of trade acceptance credit?—The practical difficulties in the way of a bill market arising in India are: (i) the conservatism of the traders who hold firmly to 'open accounts' and 'cash credits,' (ii) the reluctance of bankers to discount bills, (iii) lack of supporting documents, *e.g.*, warehouse receipts, railway warrants, but this is not regarded as so essential for inland trade bills in other countries, as Sir Henry Strakoch has pointed out, and (iv) the stamp duty on bills which has resulted in resort to other media than usance bills. The difficulties may be got over by the combined efforts of Government, banks, railways and the business community. Government must establish a proper Reserve Bank, reduce or even abolish stamp duty on bills and licensed warehouses. Railways may open warehouses and issue receipts and other instruments of title. Banks must also change their methods of business, and indigenous bankers must specialise as acceptances houses, bill-brokers, discount houses and so forth. The rise of a discount market has many advantages: (*a*) traders could keep their resources liquid, (*b*) the seasonal strain on currency could be reduced when more trade bills come to be discounted during the busy season, and (*c*) re-discounting operations will enable the Central Bank to control the money market and thus bring down the high rates of interest.

5266. You say that banks must change their methods of business. What precise changes do you recommend?—I think the banks in India are generally reluctant to accept bills and discount them. At any rate this kind of business is not so very popular with the banks. Whether it is due to their extreme conservatism or whether bills are not adequately supported by documents of title to goods I do not know. I am not in a position to go into that matter in detail, but my information is that there is a good deal of conservatism on the part of bankers and they are not prepared to change their methods, as for instance, banks in the United States have lately done.

5267. Then you are not in a position to develop the point and say what banks should do to help in the matter. If the present difficulty, so far as the banks are concerned, does arise from want of bills properly secured, then of course the banks can do nothing, but you say that you have no personal experience of the matter?—First of all, the idea that all trade bills should be supported by a document is not warranted by the practice elsewhere. I find, according to the opinion of Sir Henry Strakoch who is certainly a great authority, that inland trade bills on the Continent and in

England are not always accompanied by supporting documents, and so long as the parties are known to the bank their bills are discounted and re-discounted finally by the Central Bank of the country.

5268. Then they become accommodation bills—May be. If I sell Rs. 300 worth of goods and the person who buys from me is a manufacturer who manufactured the goods in his factory, I have got to wait for two or three months until the bill matures. If the bill is supported by an accepting house there would be no difficulty for the bill being discounted without the supporting documents.

5269. That, in fact, amounts to an advance being made on the personal security of the person—Yes, why not depend on personal security, in the case of people who are properly secured by their financial position?

5270. The difficulty in this country, particularly in the case of the Indian merchant, is that he is reluctant to disclose his financial position to the banker; at least he does not maintain that amount of touch with his banker as is existing in western countries. Is it within your experience that where he is in a position to disclose his financial position and the bank considers it to be satisfactory, the bank does not grant the facility you refer to on personal security?—My own knowledge about it is that many businessmen who are doing very good business cannot approach the Imperial Bank because their worth is not known to them and they have always to go to a shroff (a Multani in the case of Madras), sign a hundi and get money at a higher rate of interest than the Imperial Bank would be prepared to advance.

5271. He cannot produce an annual audited balance sheet and therefore he may be unwilling to go to the Imperial Bank and disclose his financial position?—That may be a defect, but I was wondering whether it is not possible for banks to show greater readiness to discount trade bills than they are doing now.

5272. *Mr. Lamond*: Talking about these advances by the Multanis, in many cases the Multanis take security from borrowers when they take a bill and pay money. If the Imperial Bank were to go direct to these borrowers, it would mean giving a clean advance on one signature and it is not in the power of the man who wants the accommodation to create the necessary security that the Imperial Bank wants?

5273. It takes a little time. The borrowers are preparing security which we can take to a much greater extent than they were doing—As an economic student I feel that this disparity between the rate at which a businessman can get his advance and the rate at which the Imperial Bank discounts a trade paper is very great in this country and should be reduced.

5274. There is a great improvement in that respect and it takes time for people to get used to new ideas.—Possibly.

5275. *Dr. Hyder*: Do you object to the disparity or to the extent of the disparity?—Of course to the extent of the disparity.

5276. *Mr. Khaitan*: In other countries trade bills are not always supported by documents of title to goods. But are you aware that merchants, *e.g.*, in Bihar and the United Provinces, when they send goods to Calcutta for sale, send a railway receipt direct to their Commission agent in Calcutta and then draw a hundi, oftentimes payable at sight, sometimes usance hundis payable by the Commission agent to serve as advance against the goods already sent to the Commission agent? This hundi is

discounted by the drawer in Bihar or U. P. with some indigenous banker and the latter sends the hundi to his agent or his own branch firm or head office in Calcutta to be presented to the drawee, who is the commission agent, and the commission agent meets the hundi either when it is presented or on the due date. Does a similar practice prevail in the Madras Presidency?—I think it does.

5277. Then you agree with me that hundis do exist which are discounted by indigenous bankers but which are not supported by documents of title to goods?—Certainly there are hundis which are genuine trade bills.

5278. Is it your complaint or grievance that the joint stock banks do not like to discount these hundis when they are not supported by documents of title to goods, whereas indigenous bankers, to the extent of their resources, are found willing to discount them?—Yes.

5279. Is it your suggestion that hundis should be supported by documents of title to goods so as to be discounted by indigenous joint stock banks or that indigenous joint stock banks should, in the interests of trade, change their methods and discount them unsupported by documents of title to goods—I do not think I can support the latter proposition, entirely, although I agree that in the case of hundis which are genuine trade bills, banks should accept them without any supporting documents.

5280. What about the other class of Hundis? So far as I have observed, the majority of bills are not supported by documents of title to goods, but are discounted by indigenous bankers. You have already said that you do not like that this practice should be continued—I do not know if that is sufficient to meet the needs of inland trade in the country. For one thing, the indigenous traders in the south have not such extensive trade connections as you think they have. I do not know the case in other parts of India.

5281. Your point is that the resources of indigenous bankers are not sufficient to meet the needs of trade in this respect?—Yes.

5282. Would you not therefore advocate that some system should be devised whereby the resources of indigenous bankers should be increased in order that this necessity of trade may be fully met?—I quite admit that it is necessary to devise some method.

5283. Therefore, would you recommend the grant of better facilities to indigenous bankers? I am repeatedly asking you because you said you would like that bills should be supported by documents of title to goods rather than that the bank should change their methods—My idea is that the indigenous banker is now doing a very valuable function, but he might specialize as real bill-brokers or—accepting houses. We require discount-brokers and bill-brokers in this country.

5284. It would be much better if you do not introduce these words, discount-broker and bill-broker; they are quite different things altogether—Nor am I saying they are the same.

5285. On this particular point, would you like that the trade methods should be altered or the resources of the indigenous banker should be enlarged—I want that the trade methods should be altered and I want both. The indigenous banker's resources must be increased, provided he falls into line with the needs of rediscount banking.

5286. In the first instance, the indigenous banker should discount the hundi, and then he should re-discount it with a joint stock bank. Is that what you are suggesting?—Yes, certainly. The indigenous banker must be given facilities to rediscount the hundis when he requires cash.

5287. That is what I am saying and it means that he must get greater facilities—Yes, I agree with you then.

5288. In giving him greater facilities, would you insist that trade methods should be altered, namely that the bill must always be supported by documents of title to goods? On the one hand, you said that in other countries the system of attaching documents of title to goods is not the invariable practice of banks in discounting or re-discounting bills; on the other, you said that you would like trade methods to be altered in India?—I am not competent to say whether we should adopt *en bloc* the system obtaining in other countries, but in the conditions of India which are not so developed in such matters, it might probably be best for us to adopt the other system of creating and discounting and re-discounting trade bills, supported of course with the necessary documents. I find that the United States also are following such lines and particularly in a country which is undeveloped as India is, we cannot follow the more developed methods of England.

5289. I may tell you that India has been following the more developed methods even now? There is the indigenous banker's signature, the signature of the drawer and the acceptance of the drawee can also be got. Are not these three signatures sufficient securities?—They might be.

5290. *Mr. Lamond*: I do not quite see your difficulty. If a discount limit is given to a Multani, he knows where to make that limit available. If he has branches, say, in Shikarpur, Bombay, Madras, Coimbatore, etc., and he has a five-lakh limit, he might ask for a lakh limit in each of these places. There is no question of discounting the bill at the place where he advances the money—It may be true that the Multani is able to do it.

5291. But what about other bankers?—Any other local banker can make similar arrangements. The bills should be discountable, whether they are supported by documents or not, if the parties are known to the bank.

5292. It is not usual to discount without limits.

5293. *Mr. Khaitan*: May I explain to you the difficulty of attaching documents of title to goods in all cases? The railway carries certain goods, say, from Patna to Calcutta, in 24 hours' time. The trader draws the bill with 30 days' usance, discounts it with an indigenous banker, the indigenous banker may rediscount it with other firms, and so it might pass through 15 hands and may not reach Calcutta for the next 15 days. If the goods arrive in 24 hours, they may be incurring demurrage, and the commission agent will not be able to take delivery of the goods.—I quite admit that will happen in the case of the transmittance hundi, but there are other hundis.

5294. They are accommodation bills. No documents of title are attached to muddati hundis?—I agree.

5295. Take again the case of the manufacturer. The manufacturer produces goods and keeps them in his godown. He wants advances on the security of these goods. There are no licensed warehouses, therefore

there are no warehouse receipts to be attached and he still wants money to carry on his business. He cannot have a cash credit account with the bank. He therefore draws a bill on the general security of the goods that he has and makes some arrangement with the indigenous banker and the latter has the security of the goods to discount the hundis of the manufacturer. Where is the document of title to goods to be attached?—But how will the joint stock bank be able to discount a hundi of that nature?

5296. On the security of the various signatures—If the indigenous banker and the party are well known to the particular joint stock bank, it might be discounted.

5297. *Mr. Khaitan*: May I give you another instance. Supposing cotton is sent from Tinnevelley to Calcutta. It comes by rail to Madras and thence by steamer it is sent to Calcutta. It is not possible to attach documents of title to the bill.—Yes, I agree.

5298. *Chairman*: Anyway we need not press the matter too much. At the present moment undoubtedly advances are made by the Imperial Bank on a large scale on what may be termed personal security and without any security of goods. That is Mr. Lamond's point. But a limit is naturally placed on advances on personal security. But in the other cases where bills are really genuine trade bills advances are made without any limit. You are not wholly correct when you referred to the American system. The real position in regard to the American system is as follows:—"Bankers' acceptances, other than those accepted or endorsed by member banks, shall be eligible for purchase only after the acceptor has furnished a satisfactory statement of financial condition in form to be approved by the Federal Reserve Board and has agreed in writing with a Federal Reserve Bank to inform it upon request concerning the transactions underlying such acceptances". There too advances may be given or the banker's acceptance may be purchased if the purchaser is satisfied about the financial position of the party that issued the acceptance?—That may be true. My point is why there should be such limits placed and why the Imperial Bank or the Reserve Bank should not rediscount more hundis than those indicated by the limits.

5299. Apparently you have no actual knowledge in regard to these?—Of course I am not a practical banker. My whole point is that there is room for improvement in the existing state of affairs.

5300. Since you can possibly make no concrete suggestions for making improvements in that matter, we will leave it at that.

5301. You state that you see no reason why commercial banks should not accept notes of agriculturists of good standing whose farming business is conducted on businesslike lines on condition that their crops are hypothecated to them and suggest that any steps that might be taken in this direction should be on the lines of the Agriculturists Credits Act (1928) of England. Will you kindly state what provisions of the Act you refer to?—I have not got a copy of the Act, but I refer to Part II of the Act which deals with Short term credits. I can explain to you what I mean in regard to this. The particular aspect of the English Agricultural Credits Act, that I should like India to adopt is that relating to making the loan a charge on the borrowear's crops and other property hypothecated.

He must therefore be debarred from selling such property and in certain circumstances the lending bank must take possession of it. Steps must also be taken to prevent the raiyat from pledging the same property for two different loans. Section 19 of the Co-operative Societies' Act of 1912 gives priority of claim to co-operative loans, but my view is that it is not sufficient if agricultural paper is to be discountable.

5302. In England can, what you call, notes of agriculturists be discounted?—I am not aware whether there is any such provision, but in America that practice is in vogue.

5303. Then again you are mixing up between an advance made on personal security and an advance made on the security of goods. If the agriculturists were substantial persons to whom the bank would not object to make an advance on personal security there will be no difficulty in the paper circulating, but if the advance is given specifically on the security of crops then it will be impossible to make that paper circulate. Is that not so?—That is true; but can it not be made additional security?

5304. The banks do not advance on standing crops generally because of dangers and so unless the crops are actually warehoused, advances are not made. I am not aware of the provisions of the English Act in regard to this?—I am sure that the position in England is that banks are in a position and they do advance loans on the security of standing crops.

5305. *Mr. Lamond*: You have used the word "hypothecated". Is it your suggestion that in England it is considered a penal offence?—Yes, it is a penal offence, and the bank could also take possession of the standing crops at any time.

5306. *Mr. Ramadas Pantulu*: You say "Borrowing is now the bane of our financial machinery; it must be transformed into rediscounting, so far as all productive operations are concerned." Will you please explain how you propose to put this suggestion into practice so far as the agricultural loans are concerned?—At present when a man borrows money, he generally goes to his indigenous banker and gets it. What I mean to suggest is that if a proper security could be created for this purpose both the borrower and the lender would be better served than at present.

5307. *Mr. Ramadas Pantulu*: I will explain the difficulty under the law as it now stands. Co-operative societies make short term advances to the agriculturists to meet their production expenses, but under the law we have no charge on the crop. The Co-operative Act of 1912 says (section 19) that the co-operative societies have merely a prior claim over the other creditors. No first charge is created under the section. Therefore, if the raiyat parts with the crop, the society has absolutely no claim. May I therefore ask whether it is possible under the present law to create short term paper of the nature you contemplate?—If the crop is made a first charge on the loan made by the co-operative society then it will be possible to create agricultural paper as it is done in the United States.

5308. So you think it necessary to change the law in regard to this matter?—I think it is necessary.

5309. *Sir Purshotamdas Thakurdas*: You make a distinction between borrowing and discounting in paragraph 17 of your Note in the Madras Committee Report?—Indeed both are practically the same but I want to discourage the practice of raising a loan without creating a negotiable instrument.

5310. Do you contemplate the prohibition of loans for what are called unproductive purposes altogether?—It cannot be prohibited altogether, but it must be reduced to a lower figure and altogether discouraged.

5311. What is the practical suggestion to improve the position—where a co-operative society is unwilling to lend for an unproductive purpose, the money-lender is there to oblige him?—I should think co-operative society should be able to fulfil all the demands for productive purposes of its members.

5312. But if a man does want sums for unproductive purposes, then he naturally goes to the money-lender and you cannot prohibit his so doing?—No, he cannot be prohibited.

5313. But in the case of a man who is already steeped in debt, what will you do?—The only way for him is to get out of his debts by selling his property, and beginning his career again.

5314. Do you not come across many such cases in the districts? Yes, we do.

5315. *Mr. Ramadas Pantulu*: You can obviate the difficulty a bit if you make the crop a first charge on the co-operative society?—That will to some extent relieve the difficulty.

5316. *Sir Purshotamdas Thakurdas*: Will not such a legislation decrease the credit of the agriculturist?—Yes, it will in the eyes of non-co-operative credit agencies. But I ask why should he have any extra credit over and above what he gets from the society?

5317. The fact is that he does find a necessity to enable him to make both ends meet.—I think that the co-operative society may provide for that.

5318. *Chairman*: Your point is firstly, co-operative society should provide for his requirements adequately but to a reasonable extent and if thereafter he wants to incur additional debt to meet his extravagance some check should be imposed on his securing such facile credit. Is that what you mean?—Certainly.

5319. *Sir Purshotamdas Thakurdas*: Have you any concrete suggestions to make in regard to this extravagance?—Nothing more than this, for the present.

5320. *Mr. Ramadas Pantulu*: If you create merely a first charge on the crop, you are not taking away all the credit of the agriculturist. The co-operative society will have a lien on the crop only to that extent of its finances and the rest of it is quite free. Therefore do you not think that the cultivator will be able to raise more credit on his crops if he thinks it necessary to raise additional loans. After all there is no charge on the land but only on the crop?—But the difficulty is that when there is a charge already, it will be difficult to get further advance from another party, for, after all most money-lenders depend upon the crop.

5321. *Chairman*: You are aware of the true conditions that exist in rural areas. There are ever so many credit agencies at work in the present day that the cultivator will not at all find it difficult to raise additional loans?—My own experience is that people who grant loans to cultivators always do so with an eye on the crop; that is the most tangible asset.

Anyway we will leave it at that.

5322. You state that there seems to be need for an industrial bank in South India and recommend that it may be started under State supervision and control?—Have you considered what capital will be required and how it should be raised and what assistance you require from Government?—In answering this question I can only make a few suggestions. I do not think it is necessary to insist upon a minimum capital. Probably Rs. 50 lakhs might be sufficient to start with. We can make a start with a small capital but we must have the means to increase the same with the issue of further share capital and debentures as well. Government can help by purchasing debentures and guaranteeing interest on debentures and possibly on shares as well as by framing rules and bye-laws and also by providing experts to advise banks on the industries to finance.

5323. You favour the establishment of a Provincial industrial bank for that purpose as against an All-India Industrial Bank?—I do not think an All-India bank can serve the needs of all the provinces. I advocate the formation of provincial banks.

5324. You suggest that the nidhis might be harnessed to industrial investment but that the matter requires further consideration. Since you wrote the note have you devoted further consideration to the subject and if so will you make any definite suggestions in the matter?—I have not pursued the subject further since I wrote the note. The nidhis are at present attracting the accumulated savings of the poor people. These are really fixed deposits or long term deposits and they are not always withdrawn at the time of maturity by the depositors. If means can be found to increase such savings it might be possible for them to have sufficient money which will enable them to purchase debentures in the Industrial Bank. There are perhaps ways of affiliating nidhis to the Industrial Bank and with their help some kind of intermediate banks as in Germany may possibly be established. I admit, the matter requires consideration.

5325. As land mortgage banks develop in the field, nidhis should not be allowed to take a share of that business and gradually they would be cut off from the field of long term finance to agriculturists by their getting ultimately merged in the industrial bank. Is that your suggestion?—Yes, somewhat in that direction.

5326. But short of that how can you force the nidhis to invest their funds in the debentures of the industrial bank?—I am not at all for forcing them to do so. I have not myself been able to pitch upon any solution but I dare say there are possibilities of approaching a solution.

5327. Nidhis are a sort of banks, and according to you they accept long term investments from their depositors which they utilise in granting long term loans to the agriculturists. If they find that business profitable and if they are not driven out of the field by the land mortgage bank, the former will continue to do the business that they are doing now. How can you prevent their doing the work that they are doing now?—This could possibly only be done by education in favour of the land mortgage bank; but there may be ways of giving incentives to Nidhis for doing industrial banking work.

5328. *Dr. Hyder*: In paragraph 40 of your Note of Dissent you have stated, "In Germany and Japan, where such banks exist, they were the result of active State help ". As regards Germany will you give us the names of the banks that received such State aid?—So far as Germany is concerned, the Industrial banks are chiefly the D banks.

5329. *Chairman*: What was the assistance given by the State to these D banks?—Do you want me to enumerate the direct aids given by the State?

5330. Our information is that no assistance was given by the State to the D banks.—The State may not have given any direct help.

5331. They did not give even any indirect assistance—I don't agree.

5332. *Dr. Hyder*: If you have been referring to land mortgage banks, then your statement is correct, for land mortgage banks were no doubt helped by the State. But here, as applicable to industrial banks, I am afraid the statement is out of place?—I have only been referring to industrial banks.

5333. The industrial banks are also D banks and so far as I know, no help was given except perhaps later when Germany was approaching the world war.—But there are many indirect ways of helping banks, such as the provision of the facilities needed for their development.

5334. *Chairman*: So far as I know—and I hope Dr. Hyder will corroborate me in my statement—when the D banks came into existence, they had nothing to do with industry. Then industries grew up and the D banks got themselves mixed up with the industries.—My submission is that the industrial banks in Germany would not have got such a good business if the State had not helped the industries. So that was a kind of indirect assistance to the industrial banks.

5335. *Dr. Hyder*: Have you any idea of the dates on which the D banks were founded?—I am afraid I cannot give you dates off hand.

5336. *Mr. Rushforth*: With reference to industrial development, Mr. Thomas, do you agree with the statement in paragraph 263 of the Madras Committee's report, namely, "it is more a lack of confidence in individual promoters of companies than lack of resources that prevents enterprises from being able to procure adequate capital by public subscription ".—I admit that it is partly the reason why industries are not prospering. But that is not the only reason nor the most important reason. Many people who started business have not succeeded; in the case of most of them lack of capital has been an important drawback. I know there are many youngmen who are very clever and who could manage industries very successfully, but they were handicapped for want of the capital that they deserved. In countries like England such assistance would be forthcoming to deserving youngmen. They will also have the opportunity to train themselves. But our men are denied such opportunities.

5337. So you disagree with that statement?—I think it is over-stated.

5338. In paragraph 262, the Madras Committee says "Government's attempt to assist industries in this matter have met with small response and less success ". This is in spite of the expert advice placed at the disposal of industries in the Presidency.—My point is that they do not at present get any expert advice at all. I am not in a position to say whether the Industries Department is able at present to give any expert advice, though I must say that it is badly needed by those nascent industries which are likely to develop in the Presidency.

5339. You said a little while ago that in other countries, like England for instance, clever youngmen who showed any aptitude for industry never suffered from lack of capital. Is that really a correct statement?—I hold to that statement.

5340. Can you give us any specific case?—I have lived in England for 4 years and have carefully observed things. Further, I can quote the authority of a person no less than Dr. Marshall who says that in England a youngman will generally get the capital he deserves.

5341. *Chairman*: "That he deserves".—That is a different matter. That does not mean that any and every young man who showed some inclination towards industry would be readily accommodated by the banks in England to the extent of the capital he needed. In my opinion, the necessary financial assistance would be available in this country because I think—and I have heard it stated by others—that at the present moment there is plenty of capital with the Indian joint stock banks; but simply because there is lack of confidence, those banks instead of providing this surplus money to these clever youngmen, prefer to invest it in Government securities. Have you studied that aspect of the question?—That is true.

5342. We have also heard it stated by some witness, who was talking of the system by which the cotton mills in several centres secure money by deposits, that if enough capital did not flow into the mill, it was due to the lack of business integrity on the part of the promoters than to anything else, and that where the public confidence in the integrity of the management remained unshaken, there was no dearth of funds. Is that correct?—My point is, how can any young man establish his integrity or inspire confidence in the investing banks or the public unless he is given a chance to prove his worth? Our difficulty is that we have not, at present, got the requisite environment where his cleverness can fructify.

5343. We in this Committee cannot create that environment; we can only make recommendations for additional banking facilities. Now let me tell you what your Committee has to say in this connection; in paragraph 262, they say, "Prosperous industries can only be developed very slowly but for acceleration all reasonable facilities must be available and one thing that is missing is an adequate banking organisation ". They say elsewhere in their report that that is not their only need. My point is that perhaps what the Committee has said—though you dissent from their views—represents the true state of things.

5344. *Mr. Ramadas Pantulu*: Has your Committee made any enquiries regarding the economic condition of labourers, petty traders, etc., in the Madras Presidency?—We did make some enquiries, and I have also made some on my own account.

5345. Can you tell us at what rate of interest they are usually accommodated?—I think it is one anna in the rupee per month; in other cases it is probably ½ anna. But I do not think that an ordinary labourer can borrow unless he agrees to pay as much as 37½ per cent. per annum. They borrow chiefly for marriages and other unproductive purposes.

5346. How do small traders raise money for their requirements?—Some of them raise money by what is called the "Kandu" or "qist" system, *i.e.*, they borrow small sums and repay them by instalments.

5347. Did your Committee consider the question of creating any credit facilities to them on reasonable terms?—We considered the question of increasing their facilities though I do not think we made any specific recommendations in that behalf. In regard to town labourers my personal idea is that there should be far greater effort in the starting of co-operative societies; there is considerable room for extension in that direction.

5348. It is said that in India capital is not forthcoming for industrial development. I am of course referring to small industries. May I know if as a result of your enquiries in the Presidency you have been able to ascertain any reasons for it?—Is it due to any lack of capital or to any antipathy on the part of the investing public?—I think there is a large amount of capital in the Madras Presidency; there is a good deal of long-term capital that could be accumulated; I do not think there is any paucity of funds. On the other hand there is a definite preference for investing in liquid assets. Lately the Central Land Mortgage Bank sold debentures and found the response not very large.

5349. Have you made any recommendations in your Report on this point?—I think we have suggested the opening of a Savings Association for the Presidency though we had difference of opinion on the matter. I also think that investment trusts must be founded in order to enable small investors to utilize their surpluses profitably and in order that industries may get ample capital.

5350. With regard to the Co-operative Movement you have made a definite statement that the surest way of getting co-operation to help small industries is to link up the co-operative banks with the money-market of the country. Do you think that co-operative societies are now suffering from want of funds?—It is true that they have large funds, but have they met all the legitimate needs of the members of the Co-operative Societies? The ryot is still wanting money.

5351. *Mr. Ramadas Pantulu*: In practice, what we find is that short-term loan invariably tends to become long-term one either on account of wilful default in payment or failure of crops and other vicissitudes over which the borrower has no control. You do not think it is liquid enough for any bank?—The only way is to make the loan a charge upon the crop, because after all for an ordinary ryot, particularly when he is a land-less tenant, his real security is the crop.

5352. So it can only solve the question of a short-term crop finance. You cannot make the intermediate loan a charge upon the crop—I am not for immediately making intermediate loans discountable.

5353. Are you aware of the provisions of the Intermediate Credits Act which has been passed in America and which forms a part of the Federal Banking system?—Yes, I know about it, but I must point out that the American farmer is a man who owns and cultivates a large farm of 500 to 1,000 acres or more. Our ryot has only a very small holding, borrows for unproductive purposes, has very little staying power and we can hardly adopt methods which have been found successful in the United States. We can start with short-term loans on the security of crops.

5354. In order to develop produce loans, is not a system of warehousing in rural parts necessary?—It is necessary.

5355. Have your Committee made any enquiries as to how the godown system is being worked?—The co-operative organisations have started a number of godown societies for the purpose. I think we have not made any progress on these lines on account of inherent difficulties in the co-operative system. The best means of avoiding these difficulties will be to mark out for each district or part of a district a certain place where the godown is to be erected and to link up the primary societies around these, so that each primary society might naturally expect the crops of its borrower to go into that particular godown. All loans are thus repaid

from the price received by sale and thus overdues will diminish. Thus, we will be in a position to establish the relationship between the different financing agencies in the country, and also to secure better marketing and we may make improvements in our present system. Thus the relation between the Primary Society, the Godown Society and the financing Central Bank must be properly adjusted. It is only by the joint action of these three bodies that we can place the co-operative system on business-like lines. In this way, we may increase the share of co-operation in our Agricultural credits system.

5356. Are you aware of the fact that the Madras Government offered to lend to co-operative societies money at 5½ per cent. on rupeee to rupee basis if they undertook to build godowns?—I believe it was the case.

5357. I may tell you my experience that that facility is not being availed of by co-operative societies to any extent. Have you found out any reason why co-operative societies were unable to take up this offer of Government?—It is lack of enterprising spirit. It must be made up by active propaganda by officers of the Co-operative Department and by joint action between the officers of the Co-operative and Agricultural Departments. Such joint action is not now resorted to.

5358. I have made personal enquiries and the ryots tell me that even on a rupee to rupee basis the loan at 5½ per cent. bears so much interest that the rent received on the godowns would not cover it. They said that if they spend Rs. 10,000 for a godown and borrowed Rs. 5,000 from Government at 5½ per cent., the interest on that Rs. 5,000 Government loan would be larger than the rent that can be got from the godown by storing the crop there. It is not therefore a business proposition. Have you investigated this aspect of the question?—This can only be done by enterprising individuals taking up the work and demonstrating that this kind of marketing will succeed.

5359. *Chairman*: Therefore it is really a case for the Professor and the teacher and not for a Banking Committee?—Yes, the teacher must play his part, and does play it, in his humble way.

5360. *Mr. Ramadas Pantulu*: You say: "Already the Imperial Bank has allowed the co-operative central banks to create an overdraft account on the strength of the notes of the members of primary societies. That privilege is now being withdrawn, not because this has resulted in any loss, but because of other reasons." What are the other reasons?—I can only give some reasons which I have heard mentioned by people. Firstly the co-operative movement has not been utilising these facilities sufficiently; secondly, the co-operative societies have been using this credit as fluid resource prescribed by the Act and this was not liked by the Imperial Bank; thirdly, the possibility of liquidation of a primary society and the consequent loss that might be involved; as also the possibility that the co-operative society being on the unlimited liability basis, there might be some upheaval in the village, if the Imperial Bank proceeded to recover its money from the Primary Societies whose notes were used as cover. Some of these reasons have been urged in regard to this point, and perhaps there are also other reasons.

5361. You make a definite statement that the cultivation of paddy in the Madras Presidency should be discouraged and commercial crops encouraged?—Yes, but I do not want paddy to be discouraged but only that paddy cultivation need not be artificially fostered.

5362. Can you say from your enquiries that in any part of the Madras Presidency there is over-production of rice which is not required for the consumption of people in that part of the country?—If you take the whole of the Presidency, we have ample food crops for our sustenance.

5363. It is not like Burma where there is a large export in rice?—It is not so.

5364. In many areas just enough rice is produced to meet the people's requirements. Do you think it is very correct to ask people to replace the crops in such areas with commercial crops?—Government have been spending large sums of money on very expensive irrigation works like the Mettur project. The object of this is to make dry lands wet and the economic result of it to the ryot will be that he will have to raise paddy. I admit that a great deal of paddy is being raised on profitable terms, but in all but the best lands, the outturn from paddy is very meagre indeed. An acre under paddy produces much less income than an acre under most "money" crops—say oilseeds. There is greater scope for extending the raising of such crops in Madras, *e.g.*, sugar, oil-seeds, etc., and for this we do not require a lot of water. With a few wells, we may easily convert some of the ordinary dry land into garden land which means a considerable increase in the value of the land and also in the income to the owner of the land. Therefore, if instead of spending large sums of money on big irrigation works, more money is spent on smaller works, it would make the lot of the cultivator more bearable, and the average income may increase. The idea of making the Presidency self-sufficing does not particularly appeal to me, for many regions in our Presidency will have in any case to raise food crops, and they could produce sufficient food for our requirements.

5365. But even if we are driven to import rice and wheat into this country from other countries and turned our lands on for commercial crops, you think it does not matter?—If the commercial crop selected is suitable to the nature of the country and one with a stable value, I think it is well worth doing so.

5366. *Dr. Hyder*: Were you influenced in your opinion chiefly by the opinion of Mr. Hilson, the Director of Agriculture?—I cannot say that I was not influenced by his opinion. I am here expressing what I think is reasonable.

5367. Why does not the agriculturist himself go over from one to the other system?—Is there any compulsion anywhere in the Madras Presidency?—There is no compulsion, but the traditional view of the Indian agriculturist is to stick to paddy. He considers it a great privilege to grow paddy and unless it is demonstrated to him that he will get more income by cultivating tobacco or other crop, he will not do it. For other crops water supply is hard to get, but for paddy he gets water by paying a water-rate.

5368. Have you looked at it from other points of view?—Is it a fact that indirect compulsion is exercised by some agency, *e.g.*, the revenue collecting agency? Is the wet land subject to a higher assessment?—Of course it is.

5369. Rice wants more water?—Yes, swamp paddy.

5370. Could a man refuse to take water?—So far as I know, he can decline to take water.

5371. *Mr. Ramadas Pantulu*: It is a consolidated assessment of land revenue and water rate?—Yes, but not everywhere. He may decline to take water in some circumstances.

5372. *Choudhri Mukhtar Singh*: Regarding the question of commercial crops, is your idea based upon your personal experience or on any calculation?—On my own experience, I own paddy fields, and other lands as well. I value my garden land more than my paddy fields and have invested more capital on the former.

5373. Do you not consider that generally land in Madras is shallow and is deficient in nitrogen and phosphorus?—That may be so.

5374. If that be so, it will require very much expenditure on cash crops than anything else?—It depends on the kind of cash crop. There are certain crops which may be grown without very much artificial manure.

5375. Do you not consider that it is only one-tenth area of Madras that is irrigated and there is no chance of increasing the wet area?—I doubt it, because it is possible to have sufficient water for garden cultivation or for ordinary commercial crops by having wells constructed. We have not at all exhausted that source of irrigation.

5376. Before you can recommend the introduction of cash crops, you have to provide for irrigation facilities first?—Yes, it is quite necessary.

5377. *Mr. Ramadas Pantulu*: Speaking of the big exporting firms, you say that they often give crop loans on the stipulation that produce is delivered to them. Do these loans bear reasonable rates of interest?—I think they do, generally if interest alone is taken into account.

5378. Does the agriculturist get a fair price for his produce under this system?—In the case of commodities for which there is no regular market in the country, I think the agriculturists are not getting the top prices at the moment.

5379. So you think the low rate of interest at which the advance is made does not sufficiently compensate him for the unremunerative price he gets?—I don't know. I don't think so.

5380. You say that it has been brought to your notice that the tobacco-growers of Chirala get very unfair treatment?—Yes.

5381. Has your Committee made any enquiries into this matter?—If I remember right the Committee wrote to the persons concerned, and we did not get any reply.

5382. Did you ask them to come and give evidence?—I think they were asked.

5383. Did you tell them about the allegations made against them?—I think an extract was sent to them from the memorandum of a certain body.

5384. They did not care to reply?—I think they did not reply.

5385. *Sir Purshotamdas Thakurdas*: From whose memorandum?—I think it was the memorandum of the Madras Provincial Co-operative Bank. This was also supported by the memorandum of Mr. N. G. Ranga and of other well known people from Guntur.

5386. *Mr. Ramadas Pantulu*: Your foot-note against 'certain gentlemen of Guntur' gives the names of Messrs. V. Venkatappa Punnayya (Banker and rice mill owner) and K. Sriramulu (President, Guntur District Board).

and also Mr. N. G. Ranga. So these people have also supported the statement, but they (the Company) have neither cared to reply nor appear before you to give evidence.—That is my information.

5387. *Choudhri Mukhtar Singh*: Taking the figures which your Committee give as the total income of the agriculturist and dividing it by the persons who live on agriculture, we get an income of about Rs. 53 per head?—Yes.

5388. Taking half of it as cultivation expenses, we get an income of only Rs. 27 per head?—Yes, if you assume that they have no income other than what they get from their lands.

5389. The rural people have agriculture as their main source of income?—That is so but there are subsidiary sources.

5390. If you take the family to be consisting of 5 members, it gives an average income of Rs. 13 per month.—That is so.

5391. Do you not think that this is a very small income on which the agriculturist has to live?—Certainly it is a small income, but in the case of those people who have small holdings, their incomes are supplemented by certain subsidiary earnings, *e.g.*, by keeping a cart or probably by pursuing some handicraft.

5392. But does it mean that the income would keep them out of debt?—In the case of a good number the income is not adequate for a decent living, not even for bare subsistence.

5393. What method would you propose to redeem the people out of debt?—That is the fundamental question which we have to solve.

5394. The credit facilities cannot be expected to relieve him to a very great extent?—I think we might be able to reduce the rate of interest he has to pay, secondly, he might be made to increase his yield by enabling him to utilise scientific methods, and thirdly, we might enable him to get a better price for his produce by better marketing arrangements. These three we can certainly try to do; but it is up to him to utilize these facilities.

5395. As far as the improvement in agriculture goes, are you aware that the Royal Commission on Agriculture say that the cultivator in Madras is most efficient.—He may be efficient in the way in which he is now pursuing his business, but there are certainly other lines by which he may make more profits.

5396. The Commission in one place say that the cultivator is by no means ignorant and knows his methods and at another place that he is adopting the best means of cultivation and employing the best implements.—I doubt whether they are not generalisations which apply to some part or some section of the people.

5397. You mean to say that there is a possibility of improvement?—I do believe so. For example, in one village, people began to use night-soil manure for raising paddy and as a matter of fact in that village they got 2½ times the yield which the neighbouring village obtained from exactly the same kind of land. That I think was a real demonstration, and in the neighbouring villages they are trying to use that particular type of manure. There might be other similar methods of improvement and if you add to these methods by helping them to make better marketing

arrangements, they will be able to earn more income and make a more decent living.

5398. You consider therefore that there is a possibility of giving the ryot sufficient that will enable him to live on his land?—I think his income can and must be increased. It can also be supplemented by some subsidiary industry.

5399. Can you give me an idea of what percentage of people are living on uneconomic holdings and what percentage on economic holdings?—It is rather difficult to say, because the economic holdings vary from place to place and from region to region, even from village to village.

5400. By economic holding, I do not mean a certain area, I refer to the economic holding for the place.—The Madras Committee have made no enquiry about economic holdings. It was thought by some people that the very idea of an economic holding is simply imaginary and without any practical use, so that it was not pursued. The administrator is often suspicious of such theoretical conceptions, and often refuses to recognize them.

5401. Can you let me know the percentage of people living on land whose position is to a great extent hopeless and the percentage who might be helped and put on a better footing?—I think we might perhaps judge this from the land revenue paid by the different pattadars. We have in Madras no other statistics.

5402. I do not think that gives us any idea, because in the pattadari system, there are a number of people joining in one patta.—But in Madras the single pattas are more numerous than joint pattas.

5403. There may be one man getting two pattas.—The report of the Madras Committee shows that 74 per cent. of the pattas pay an assessment of Rs. 10 or less.

5404. That gives you roughly about 5 acres of holding, because it is calculated at Rs. 2 an acre.—Yes, about Rs. 2 if it is dry land; but much more on wet land. It may be even more than Rs. 10 per acre.

5405. Then you consider 74 per cent. to be uneconomic holdings?—I do not think that can be said. Anything between 50 to 70 per cent. of the holdings may be uneconomic in certain regions, assuming a certain minimum standard of comfort. But then there is extra income from tenancy.

5406. *Mr. Jamal Mohammed*: You refer to a system of regulated markets for different commodities and say that many such markets are necessary in the Madras Presidency for cotton, oil seeds, etc., and you include in this hides and skins.—Yes.

5407. India to-day is one of the principal exporters of tanned hides and skins, and Madras is responsible for the bulk of the Indian produce, and you say that the exportation of it abroad is attended with many difficulties connected with finance.—That is so.

5408. *Mr. Jamal Mohammed*: You know the export trade is not at all suffering from want of finance, but the tanning industry does suffer in the matter of finance for the export of hides and skins?—I have been told that the tanning industry is not getting proper financial support.

5409. The Madras Committee itself has reported that the hides and skins market requires financial help. You know that Madras is considered

to be the biggest port in the world for the export of tanned skin and hides and you have got a local market there fairly well organised where there are nearly 300 commission mandis. Is that not so?—I do not consider it a properly "regulated" market.

5410. In what sense do you not consider it a properly regulated market?—That is my information. My point is that if an organised market for hides and skins existed in Madras, agents from all parts of the world will go over there to purchase the goods and probably regular and periodical auctions will take place and thereby business in the country will thrive; our banks will have more work to do and business firms will get more income.

5411. It may be all right in theory, but it is not so in actual practice The best part of the goods are sent out direct as sales and only a small portion which is not dealt with wholesale goes to London to meet the needs of different customers who go in for different grades.—It may be so.

5412. You have referred to industrial banks. Some witnesses who appeared before our Committee told us that the experience of industrial banks that have started till now has not been satisfactory and so on. In spite of the fact that in the past the working of these industrial banks have not been satisfactory do you still hold that the need of the country is very great and that the starting of industrial banks on sound lines is an absolute necessity?—That is my own opinion. I hold that industrial banks are a necessity. If what you say concerns the Tata Industrial Bank I may tell you that it was not a proper industrial bank.

5413. *Sir Purshotamdas Thakurdas*: In your note you have pointed out some discrepancy in the conclusions arrived at after investigation by the Indian Central Cotton Committee in a district of your province. Did you examine any representatives of the Cotton Committee in regard to this matter?—We happened to examine the person who conducted these investigations on behalf of the Cotton Committee at Adoni and we found that the information gathered by him was not quite accurate as conditions were not typical of the regions surveyed. In Adoni the cotton producers are not bound to sell to the dalals that lend money but in Bellary which is another market the custom for people is to get loans during the cultivating season from the dalals and then sell the produce only to them or through them although there was no regular hypothecation of crops. We found the conclusions of the Cotton Committee were not quite correct, even about Adoni.

5414. Was there not a local revenue officer who was in touch with the investigator?—Probably there was. Only the Agricultural officer came before us, and he himself admitted on examination that his conclusions are not quite correct.

5415. * * * *

5416. You ask "Could we go further than the marketing stage in the creation of negotiable paper" and then answering the question in the affirmative, you go on detailing the practice that obtains in the United States. Will you please explain a little further how you can create the negotiable paper by taking loans for purchase of implements, or raising crops, or breeding animals, etc.?—For the purchase of these things, I raise

a loan from my co-operative society. I give a promissory note which when endorsed by the Co-operative Central Bank may be discounted with a commercial bank.

5417. *Mr. Manu Subedar*: When you replied in regard to the creation of a market for hides and skins in this country, had you only hides and skins in view or other commodities as well?—I had many other commodities in view, for instance, cotton, oilseeds, rubber, tea, etc.

5418. Many crops which are at present exported abroad on the commission basis would stand to gain by the creation of a central market. Is that your view?—That is my view. My own experience is that when my people sent rubber to London they lost but when they sent it to Colombo, they gained. Therefore, if we have a few regular markets for all the chief staples of the country, our producers will stand to gain.

5419. With regard to the suggestion you made regarding the creation of agricultural paper which you say could be negotiated and re-discounted with the Central Bank or the Reserve Bank, do you not think that the co-operative organisation has in its sphere only a very small percentage of the agriculturists as its members and so how would you provide for proper accommodation of agriculturists who are outside the co-operative fold?—*Prima facie* the facility for creating agricultural paper which can be re-discounted should, according to you, apply only to members of the co-operative societies?—That is so. Co-operative societies in this country are getting their members from the lower classes of society and they require help in this matter. They are also a well disciplined body and therefore it is better to begin this experiment with disciplined body.

5420. You also refer to the hypothecation of crops. I dare say crops could be hypothecated when they are free, but there are instances such as those referred to where the dalal has a claim over the crop in view of his having financed the cultivator. Such a person will find it impossible to bring his crops to the warehouse. How will you create the paper in such a case?—In such cases personal credit is only possible. I cannot see any other way out of it.

5421. In such cases you might possibly be able to create the paper to help the man in the middle, the merchant. Is that not so?—That certainly is possible.

5422. And this could better be done by bringing down the interest rates?—Yes. I am suggesting the agricultural paper and re-discounting facilities in order to bring down the interest rates.

5423. I am still not in a position to understand your suggestion with regard to the people who are out of the co-operative societies?—They can get their loans from the indigenous bankers or the joint stock banks who have confidence in them.

5424. They are already financing them. Have you any suggestions to make as to how you will bring down the interest rates?—It is a large problem but for the kind of business we are speaking of now, it could be done by having a system of warehouses which will issue documents of title.

5425. Who will finance on the security of such warehouse receipts?—Any banker ought to be in a position to do so by discounting that paper.

5426. You say that the fundamental defect of India is not that there is not enough money but that it is not properly manipulated as to make its flow elastic and you therefore say that a well conducted system of discount banking is the proper solution for the difficulties. Later on you say that in India bills are used more in foreign trade than in inland, and that is because discounting facilities are more abundant in the former than in the latter, meaning that discounting facilities in the foreign trade business are more abundant. Do you imply that lots of money are being used in the financing of foreign trade?—What I meant to imply was that it is easier to operate on a foreign bill than on inland bill.

5427. Is it because of any inherent facilities or is it because of the fact that there is more capital which is drawn into the field of financing of foreign trade?—Because these exchange banks mostly operate at the ports, they find it easy to finance, as the banks are close by and as the produce is already there.

5428. Supposing some of the facilities of the banks dealing in foreign trade are withdrawn from them, then it will mean that more money will be available for inland trade. Is that not so?—Yes, in the beginning there will be too much money available for inland trade but ultimately the whole position will be levelled up.

5429. Have you any idea of the deposits that the Exchange Banks are able to attract in this country?—I know they are attracting a large amount, but I have not much knowledge about the working of these Exchange Banks.

5430. You do not know how considerable sums of money are being attracted by the Exchange Banks in this country?—I have no accurate figures, but I fancy the amount is not much less than that obtained by the Imperial Bank.

EIGHTEENTH DAY.

Tuesday, the 16th September 1930.

PRESENT:

SIR BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
SIR PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Lala HARKISHEN LAL.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. JADU NATH ROY.
Dr. L. K. HYDER.	Mr. G. K. DEVADHAR, C.I.E.
Mr. V. RAMADAS PANTULU.	Mr. JAMAL MAHOMED.
Mr. W. LAMOND.	Mr. NALINI RANJAN SARKAR.

Seth Haji ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Principal M. L. Tannan, of the Sydenham College of Commerce and Economics, Bombay, was examined.

5431. *Chairman*: I understand you have been connected with the work of banking education not only as a Principal of the Sydenham College of Commerce and Economics but also as a Fellow of the Bombay University and a member of the Council of the Indian Institute of Bankers?—Yes.

5432. You have indicated the existing facilities for banking education in schools, colleges and universities. With your long experience in the educational line have you any suggestions to offer for improving these facilities?—As far as secondary education is concerned, I submit that we ought to introduce banking and certain other allied subjects. I have given in my written memorandum the scheme of secondary commercial education which was sanctioned by the Government of Bombay. The idea is that those students who will go for higher education may get practical training in commercial subjects, while those who cannot afford to go in for higher commercial education may take up subjects recommended for secondary commercial education to enable them to get employment in banks. We can encourage the study of banking and the allied subjects even in colleges. There are schools and colleges where only commercial subjects are taught while in certain other institutions the students have the option of taking up some subjects of commercial interest.

5433. *Dr. Hyder*: What subjects are recommended?—I have given a list of commercial subjects in my memorandum. Some of them are for secondary education, and others for higher commercial education.

5434. You do not mind if those subjects are selected for the B.A. examination?—No. Some of these may be selected for the B.A. examination. I have also given there some optional subjects, such as, Advanced

Accounting and Auditing, Advanced banking including Banking law, Organization of the Indian cotton industry, etc., for the B. Com.

5435. *Chairman*: You have experience of the work done in London. Will you tell us what they do there with regard to schools and colleges? —The position there is quite different from that now obtaining in this country. Mostly clerks take up commercial subjects. Secondary education is of a general character.

5436. *Dr. Hyder*: Do you want the subjects mentioned by you to be included for the B.A. examination?—Some of these will be for B.Com. degree and the others for B.A.

5437. *Chairman*: You said now that the secondary education in England is of a general character. Am I correct in assuming that boys who are taken in business firms have a certain amount of general education and not specialised education?—Formerly, there was hardly any provision for theoretical training in commerce, but in recent years greater attention has been paid to the same. Latterly the position is changed, especially in Germany, Austria and Belgium where much importance is attached to theoretical training.

5438. Is it changed in England also?—Yes, it has been realised that elementary as well as higher commercial education will be of use to commercial houses.

5439. I find from your memorandum that certain men go into banks for employment, then these men have no facilities to have theoretical training?—Yes. Some of them have undergone this training in the last few years.

5440. When you speak of specialised banking, do you include elementary subjects also?—Yes.

5441. Is it your intention that these men should have both practical and theoretical training?—No, only theoretical, as there are no arrangements for practical training.

5442. But is it desirable or not?—Not in the case of students receiving secondary education.

5443. We shall confine only to B.Com. degrees. Do you think that for these students there are facilities for acquiring both practical and theoretical training?—My point is that there are not many institutions of commerce, giving even theoretical training for this degree.

5444. In Bombay there is Davar's college?—That is not affiliated to the University.

5445. Do you advocate certain amount of practical training?—Yes. I would invite your attention to my suggestions in the evidence given by me before the University committee.

5446. You state in answer to Question 2 that banks in India as a rule do not provide any special facilities for the training of boys in banking business. The cases of the two banks you mention relate to the training of youths recruited for service in the Bank. If your answer refers to such cases only, does not every bank give practical training to the youths it employs?—Yes, every bank gives practical training to the youths it employs.

5447. It appears that we have at present on the one hand many men trained in the business of banking in various banks but devoid of sound general education and sufficient knowledge of the theory of banking, and on the other hand graduates well versed in theory but devoid of practical knowledge and therefore not readily taken up by banks. Is that so?—Yes, there are many men trained in the business of banking who are more or less conversant only with the routine of banking. Therefore, the higher posts like those of bank manager, or assistant manager are not given to them.

5448. We have been told that the Imperial Bank of India have got ninety Indians who are in charge as agents?—Yes. They have a long training in the business of banking and have got such posts after ten or fifteen years' experience. There is a fair number of my own students among them.

5449. The other day a gentleman complained here that Indian joint stock banks do not find the best men but give appointments by patronage?—In some cases there has been patronage in the offer of responsible posts.

5450. You say that it appears desirable that with a view to obtaining the most competent recruits and avoiding public criticisms, recruitment should very largely be on the basis of a competitive examination, written and oral. Are you referring to the scheme which the Imperial Bank has got for the recruitment of Indian staff?—Yes.

5451. They have got some committees. Is it not?—Yes, selection committees in some cases.

5452. Is it your intention that recruitment should be made through this selection committee by competitive examination?—Just as the Public Service Commission hold oral and written examinations. Candidates may be selected on some such lines.

5453. *Mr. Lamond*: I may tell the committee that in Bombay and Calcutta we select men from amongst the applicants; there may be 30 or 50 candidates and for the competitive examination about ten are selected?—My submission is that all the candidates should be allowed to appear for the competitive examination.

5454. *Chairman*: You have yourself admitted that apart from educational qualifications, character, etc., should be considered. So, without a preliminary interview how will the committee be able to judge?—I say all the candidates should be allowed to appear for the examination and then the selection should be made.

5455. According to your idea if all the applicants are allowed to appear for the examination, after the examination they are sure to come before the select committee. Is it not?—The committee may select from the first ten or twenty or whatever number required.

5456. Still the committee may not take the first, if they find that the first one has not got the various other qualifications?—If they find it so, then they will be justified in passing him over.

5457. After all, we must leave certain discretion to the committee?—I am not attributing any motive against the good faith of the committee. There is public criticism and to avoid such criticism, I am suggesting this course.

5458. The Public Service Commission also make a preliminary selection and it is only with the object of throwing out absolutely undesirable people?—I do not think they now have this practice.

5459. Do you also want any examination for graduates of special qualifications?—There is no regular system of holding competitive examination for senior appointments.

5460. *Dr. Hyder*: You say that you would leave the question of selection to the best judgment of the committee. In that case when an applicant goes for an interview with the select committee, there is no necessity for that man to be asked to appear for the examination?—Those who apply for appointments are not interviewed by the members of the select committee.

Mr. Lamond: They are interviewed by the senior staff.

5461. *Dr. Hyder*: Suppose the Imperial Bank's senior staff interview candidates so as to make sure that those candidates who are called are fit for competitive examination. Then they select candidates for examination and then select for appointment the successful candidates in the order of merit?—My point is that all the candidates should be allowed to appear for the examination.

5462. *Chairman*: Even if they do that, after the examination the committee may find that there is some defect in the personal appearance of the candidate and they may reject him. So, it is better that there should be a preliminary interview. The qualifications to which you have referred in your memorandum, such as personal appearance, speech, deportment, etc., are qualifications which are required for all responsible jobs, whether it is Government service or employment in business, and every time this poor fellow, though he stood first at the competitive examination, would be rejected simply because the Selection Board thought that he lacked one or the other of the qualifications that you have mentioned.

5463. *Mr. Khaitan*: Sir, it would be better if we knew what are the subjects in which the Imperial Bank examines the candidates.

Chairman: We are at the moment discussing whether the interview to rule out a certain number of candidates should precede or follow the written examination. We will come presently to the question of subjects in which the Imperial Bank examines candidates.

Mr. Khaitan: I thought, Sir, if we knew the subjects in which the boys are examined by the Imperial Bank, it would enable us to understand better the question that is now being discussed.

Witness: I quite admit, Sir, that the fact that a certain person who stood first was not taken up, may go against him for certain appointments; but I am not prepared to accept the view that because he was not taken up by the Imperial Bank, though he stood first, he should not be considered fit enough for other kinds of employment.

5464. *Chairman*: Would not the other employer get suspicious about him?—On the one hand it is possible that the applicant may not divulge any information regarding his antecedents; on the other hand his new employer may look at it from a different point of view. It depends on whether there is any column in the application form in which he is required to give that information.

5465. Supposing after being thrown out by the Imperial Bank, though he stood first in their examination, he applies to another bank for a job. Would not this fact tell against him?—It may go against him if he seeks employment in another bank. But what I submit is that it is not necessary that the same qualifications will be required in other appointments. For instance, if a candidate does not possess a good personal appearance, that should not be allowed to stand in the way of his getting into, say, the Indian Audit and Accounts Service.

5466. What would you say if, instead of leaving the initial selection to the Bank staff, it were made by a more responsible body?—I quite admit that then there would be a less chance of criticism.

Mr. Khaitan wanted to know the subjects of the examination which these boys have to appear in before employment in the Imperial Bank. Perhaps Mr. Lamond will be in a position to enlighten us.

Mr. Lamond: That really depends on the individual officers in a Circle. The candidates who appear for the test are men who already hold the necessary academical qualifications. The examination is therefore on general knowledge, just to find out what they know about things in general.

5467. *Mr. Devadhar*: Supposing there is a candidate who cannot express himself well before the Board but has otherwise done well in his written papers?

Vice-Chairman: Such a candidate will be rejected straight off, because we are talking of recruitment for the officers grade; naturally a boy who has a lot of knowledge but lacks expression will be rejected.

Lala Harkishan Lal: In the interview he ought to be able to express himself well, because in all business the first essential is that he should be able to talk well since he has to deal with other people.

Chairman: A boy may be particularly good in writing out thesis, but he may not be able to express himself in good English; naturally he stands very little chance of being taken into the officers' line. The Public Service Commission, so far as I am aware, take the same view. It seems necessary that so long as English is the official language, the candidates must be able to converse with other people in tolerably good English. There is no use in taking a boy who cannot even express himself properly.

Mr. Lamond: In answer to Mr. Devadhar's question I wish to say that the system hitherto adopted by the Imperial Bank is most satisfactory and as a result we have got a very good class of men.

Chairman: Now, this question of examination of boys without some means of shedding away the undesirables has been a matter of great difficulty elsewhere too. In the various subordinate services of Government, what they do is that they have first of all an examination in dictation, and possibly out of, say, 500 candidates appearing, more than 50 per cent. would be thrown out. Now, there it is argued that dictation is not after all the sole test and that the boy should be allowed to proceed right up to the end of the examination as he might show better results later on in the aggregate. My point is that the process of elimination of undesirables at some stage or other is necessary.

Mr. Manu Subedar: There is no elimination in certain examinations, such for instance as the Indian Civil Service?

Chairman: Yes, there is; so far as I know, the Civil Service Commissioners have got similar arrangements though the elimination in that case is practically restricted to a few undesirables only.

Witness: The elimination is practically *nil* in those cases.

5468. *Dr. Hyder*: With regard to this question of the elimination of the undesirables for admission into the Indian Civil Service, does not the elimination take place when the boys are required to produce chits from their tutors and professors at the University?—I would say that you could ask all these candidates to produce likewise certificates of good character.

5469. Supposing the Imperial Bank were to prescribe the competitive test only; would you not thereby land the Imperial Bank into an awkward position and give the candidates the impression that the Imperial Bank did not take men who were really first class and who topped the list in their examinations?—Even in the case of the Public Service Commission some candidates who come out first are not taken up; then according to you they should be open to the same criticism as the Imperial Bank authorities.

5470. *Mr. Rushforth*: Mr. Lamond says that the method of selection has been justified by experience in the past few years. Have you any particular examples where the system has acted as unfair to the candidates?—It is a matter that I would rather not discuss unless I am forced to. There are instances of people who have been rejected while others far inferior to them in the matter of qualifications, etc., were taken up. That is the general complaint; there is an impression, whether it is right or wrong I leave it to the members of this august body to decide that selection is not based on merit.

5471. *Chairman*: You have suggested that students who take up advanced banking as their optional subject should be required to spend for practical training summer vacations in their second or third year in a bank. Will you kindly tell us whether any facilities of the nature you contemplate are given by banks in Western countries?—So far as my information goes, there is no general arrangement. What happens in other countries, particularly on the Continent, is that with the help of the tutors some of the youngmen do get opportunities for practical training in banks.

5472. Is there any similar arrangement in England?—There is no general scheme there.

5473. Is there any particular arrangement?—To give my own case, I tried to get into a bank for practical training but failed. But I knew that some Chinese students, who were my fellow students, managed to get certain facilities. That might have been due to stronger recommendations on behalf of those students. But I must say that facilities are more liberal on the Continent than in England.

5474. *Mr. Manu Subedar*: Do you not admit that in India there are no facilities similar to the evening courses such as they have in England?—We have organised such courses in Bombay.

5475. *Chairman*: Do those facilities extend to education which would enable young men to get degrees in England?—Yes, at the London School of Economics, a man can take up a full Degree while he is working the whole day in a bank.

5476. In India, is there anything to prevent that?—The Universities do not allow it.

5477. Not even if the candidate were a private student?—No; for instance no student can sit for the B. Com. Degree of the Bombay University without keeping the required number of terms by attending lectures on at least three-fourths of working days.

5478. *Dr. Hyder*: I want to know whether there are many Universities in England which grant degrees to people by allowing the students to acquire instruction in the evening?—Very few; I know of London only.

5479. *Mr. Manu Subedar*: Possibly in Manchester too.

5480. *Chairman*: In England apparently people who are employed on the staff of certain banking establishments can become members of the Institute of Bankers and appear at the examinations of the Institute?—Yes.

5481. Have you any knowledge how they interpret the term "staff of any banking establishment?" I shall make my meaning clear to you. In India the rule is the same, but I have been told that a custom has grown up under which youths join certain banks as unpaid apprentices, simply to meet the requirements of this rule of the Institute of Bankers. Thereafter they go up for the examination and once they pass the examination, they are probably relieved of their unpaid job in the bank. Is that strictly in conformity with the intention of the rule?—I cannot say how far it is true; it may be true of a few cases. The Indian Institute of Bankers have held only two examinations so far. At the first examination the number of candidates was so small that one could easily say that there was no suggestion of any kind that people join banks as unpaid probationers with a view to get admission to the examination. At the last examination there may have been some cases, but there is no general practice of the kind.

5482. Even if there had been a few cases, would I be correct in assuming that that is an evasion of the rule?—We could not say that people who joined as unpaid probationers did not continue in the bank's service or that they joined simply for the sake of becoming eligible to appear at the Institute's examination.

5483. Is a practice of that sort allowed in England?—The same thing can happen in England also in the way that a person may be taken as an unpaid probationer, but I do not know of any general practice either in England or in India.

5484. *Mr. Devadhar*: Do any of your students appear at the Institute's examination?—My students cannot appear.

5485. *Chairman*: We have been told by witnesses that a person may enter a bank as an unpaid apprentice simply with the object of being allowed to sit for the Institute's examination. The chances of his continuing in the bank must depend on vacancies occurring in the bank. After he has passed the examination he may find that there are no vacancies. As a matter of fact an unpaid apprentice has got no claim. Even if a vacancy occurs, I have been given to understand that it is not unusual for the same bank to take an outsider who may or may not have passed the Institute's examination.—I should think it unfair on the part of a bank to take an outsider in preference to a person who has worked as an unpaid probationer.

5486. But you yourself have said something of the sort in your reply given from the Indian Institute of Bankers. You say: "At the request of the heads of Commerce Colleges and Institutions apprentices are being entertained by some banks, like the Central Bank of India and the Bank of India, in order especially to enable them to appear for their C. A. I. B. examinations, and more often than not, deserving apprentices are being taken over on the permanent staff."—I do not think it was the intention of the Institute that apprentices should be taken merely with a view to enable them to appear for the examination. As far as I know, I have not made any request to any bank in Bombay or in any part of India to take any of my students with a view to enable him to pass the examination of the Institute of Bankers.

5487. *Mr. Manu Subedar*: I suppose all leading banks are members of the Institute of Bankers?—Yes, certainly.

5488. Has there been any discussion on this point, *viz.*, that in selecting the staff in future the members of the Institute should give preference to those who have qualified themselves by this method?—No, there has been no discussion of any kind. The only thing which I can say is that on several occasions the point has come up whether encouragement should be given to people who have passed the Institute's examination, and of course most of the members of the Council have expressed themselves in favour of the view and that they are doing all they can. That is to say, we give increments, and we give bonuses to people who pass the examination; but the question has not come up in the form in which you put it.

5489. *Chairman*: In the statement of the Institute of Bankers the word *'especially'* was perhaps put in without careful consideration. That is the substance of your answer?—It is quite possible. What the writers probably meant was that they were giving facilities to students, it was not by way of complaint against the practice.

5490. The Council of the Indian Institute of Bankers have expressed their concurrence in the views expressed by the Bombay Chamber of Commerce. In their reply to the first question the Chamber suggest that the Economic Department of Indian Universities might follow the example of English and American Universities. Can you give us some detailed information regarding the activities of those Unversities in this direction which might be followed by the Indian Universities?—As a matter of fact, what probably the Bombay Chamber of Commerce had in view was that the Indian Universities should attach importance to these commercial subjects, *e.g.*, by organising special lectures on such objects, by offering prizes for essays and things of that sort.

5491. But are the activities of the English and American Universities confined to these particular directions?—These are some ways in which they encourage education in these subjects.

5492. *Dr. Hyder*: Do not some of the English Universities, *e.g.*, Cambridge and London, carry on a survey of economic affairs, collect data, and then make forecasts to be placed before businessmen?—Some Universities do that kind of work, it has only been very recently started.

5493. *Chairman*: The Institute state that the number of banks in Bombay willing to afford facilities for training in banking is limited and that it is desirable that more banks should entertain apprentices. Have you any suggestion to make as to how your object can be achieved?—If

the apprentices are to be whole-time apprentices for long periods, of course the number of apprentices to be trained cannot be very large. If, on the other hand, the suggestion made by me, *viz.*, that these young men who are receiving education of a University type should be allowed facilities during the three months of vacation, be accepted, more people can be given practical training.

5494. Therefore you prefer your alternative suggestion to this particular suggestion?—This of course is a very general thing. I do not know whether the Institute had in view the cases I am putting forward; I do not think personally that they took the cases into consideration.

5495. In the course of examination of other witnesses, I have taken the view, that if these apprentices are to be *bona fide* apprentices, they should have a definite prospect of being absorbed in the bank's staff and the number of such apprentices must necessarily be limited?—Yes, with the present banking development of the country. Here again the difficulty is that certain banks do not take such apprentices; probably the Institute meant that they should offer such facilities. I do not know if exchange banks have any scheme of this kind.

5496. But the trouble is that they talk of unpaid apprentices, and you know as well as I do that an unpaid apprentice has no hold on the bank where he serves as an unpaid apprentice. There is no hold if there is no chance of his being taken up; if, on the other hand, the unpaid apprentice is to be absorbed on the staff after a few months, he will abide by the orders of the bank.

5497. *Mr. Khaitan*: You were saying something about exchange banks. Many witnesses have stated it as a difficulty that there is not a large field of employment for trained students, so that if you train a large number of students under present conditions in India, there is no chance of their getting employment. Do you advocate that something should be done whereby the exchange banks would take qualified Indians?—I have made a suggestion to that effect. It may be the view of some people that if you train a large army of these men for banking careers and if they cannot get an adequate number of appointments, they will be disappointed, but on the other hand, I remember that on several occasions I have been told by even English bank managers that the reason why they have not opened branches at certain centres is largely that they cannot make those branches pay their way because they cannot get trained Indians on moderate salaries in place of imported staff whom, they have to pay much more. My feeling is that the development of banking has been hindered on account of the absence of a fair number of trained Indians.

5498. *Chairman*: When you refer to English bankers, do you refer to exchange bankers?—The particular gentleman I referred to happens to be an Englishman who is the Manager of an Indian joint stock bank.

5499. *Mr. Khaitan*: You say that it appears desirable in the interests of the exchange banks that they should throw open at least a small percentage of the higher appointments in their branches in India to Indians possessing the necessary qualifications. I suppose you are aware of the fact that the business of exchange banks in India is carried on not only with the help of, but almost wholly on, deposits received in India from Indians?—I know that they hold about 70 crores of rupees.

5500. And the exchange banks manage almost the whole of their business with that money. It may be that in the busy season they import some capital and in the slack season they export some of that capital, but it may be truly said that their business is carried on almost wholly with the help of Indian deposits received in India.—Certainly, the Indian deposits are very helpful to them. Whether they manage the whole of their business with this money or not, it is difficult for me to say.

5501. That being so, why do you recommend that only a small percentage of the higher appointments in their branches in India should go to Indians?—I do not think it is possible to begin with a large percentage, it is always, I think, easier to begin with a small percentage and then raise it when opportunity occurs.

5502. But they carry on business in India?—There are also so many English firms carrying on their business in India.

5503. With the help of Indian money, they carry on their business and they finance commodities grown on the soil of India.—They finance the import trade also.

5504. As far as the export trade is concerned, it is claimed that they help the export of commodities grown on the soil of India. What appropriate or good reason can there be that, while they get all the benefits from India, they should not confer a corresponding benefit on the children of the soil of India in regard to some appointments?—The answer to that question is that after all the institutions are foreign and the shareholders have certainly a right to say to whom the management should be entrusted.

5505. *Dr. Hyder*: As one occupying an eminent position in a University as a teacher, is it not your privilege to look at all sides of a question?—Yes.

5506. It may be highly desirable from the Indian point of view, and you may share the same sentiments, but there is the business point of view also. These Exchange banks are institutions which trade in India—Yes.

5507. It is the shareholder on whom the ultimate responsibility rests. Whatever the agency employed may be, if the concern shows profits, it may be all right; but on the other hand if by the substitution of one kind of agency for another, there is a danger of a loss emerging, what becomes of the patriotic side of the matter?—My answer is that there is no doubt that the shareholders' point of view cannot be ignored, but on the other hand, the shareholders cannot ignore the fact that if their concerns are making profits in India the children of the soil should have some hand in the management or at least in assisting the management of these concerns.

5508. You are aware that these exchange banks operate not only in one country, but in many countries?—That applies to certain exchange banks.

5509. If there is weakness shown in one region, the effect of it may be felt at the centre where the chief responsibility is located. Would you admit that?—My answer is that there is no certainty that the Indian agency which may substitute the European agency is going to be weak or likely to create weakness. It is quite possible that the shareholders.

if they feel that in the beginning the higher appointments must remain with Europeans or others, may be justified in insisting on it, but on the other hand, I think there would be no harm in putting forward this request to the exchange banks, *viz.*, that they may give more opportunities to the sons of the soil to work in these exchange banks and get practical training in exchange business. I may just mention that the laws of certain countries insist that the children of the soil should have a large proportion of the appointments. If I am not mistaken, there are regulations of that kind in Turkey, Denmark and in certain other countries.

5510. I quite agree with that, but you have to look at all sides of the question. If it appears to the shareholders of the Exchange bank that they should substitute an Indian agency for the European agency, they will do it. If, on the other hand, they feel that the welfare of the different branches in other countries may be jeopardised by this, they will perhaps hesitate to do so.—It would be true if one was advocating that their branches in India should be put in charge of Indians. What I advocated was that some of the lower appointments, *e.g.*, Assistant Accountants or Assistant Managers should be given to Indians. Surely, in those cases the heads of the branches will be Europeans and there is no reason to fear that the employment of Indians will endanger those Institutions.

5511. *Mr. Manu Subedar*: You said your students have been taken into the Indian joint stock banks and the Imperial Bank. Have any of them gone to the exchange banks?—None that I am aware of.

5512. Do you think it is more difficult to get into the exchange banks than into the joint stock banks or the Imperial Bank?—That is so.

5513. Would you say that Indians have any hold on the exchange banks and could force them to do anything, however beneficial it may be for this country?—Indians have no hold on these exchange banks, but you could by legislation, bring these exchange banks under control, if you think it necessary.

5514. What I mean to imply is that you have rather to depend on their good sense, but you have no control over them otherwise?—That is true.

5515. You said just now that a beginning might be made with the appointment of Indians for lower grades and that in course of time everything will be all right. You are aware of the theory that is put forward, "inferiority complex", in this country; for example, when you first got into your service, it was not thought possible for an Indian to occupy the position of Principal of the College which you are occupying to-day?—That is a fact, the appointments of the Principal and the First Professor were required to made by the Secretary of State for India.

5516. And it was only after the War and the subsequent widening of the Englishman's outlook on India that Indians have gradually begun to be placed in charge of responsible positions which were hitherto considered to be the preserves of the Britishers?—That is so.

5517. Do you think that after a course of training which you have detailed in your memorandum Indians would be in a position to hold responsible positions as Managers of exchange banks?—Certainly.

5518. You do not think there is anything inherently wrong in it?—I do not think there is any. As far as my information goes—and I am not quite sure of it—even English bankers had to depend upon continental people for some time for their foreign exchange business.

5519. I remember having read a suggestion in the "Capital" of Calcutta some time ago that Clive Street would faint at the idea of having an Indian as manager of an exchange bank. You do not anticipate any such thing? . . . . . .

5520. *Chairman*: I think you said that in Turkey they have by legislation provided that foreign banks operating in that country must employ some Nationals in their service?—Yes.

5521. Can you tell us what the precise arrangement is, because you know a bank can say after employing a few menial staff and clerks, "look here, we have fulfilled your requirements"?—I have no first-hand knowledge about this but so far as my recollection goes, there is some stipulation with regard to the employment of people to higher appointments in some countries.

5522. We shall be thankful if you can very kindly send us a note on the subject giving us all possible information in regard to the matter?—As a matter of fact I have written a paper on the subject. I shall look it up and if necessary shall send it to you with any additional note on the subject.

5523. *Mr. Devadhar*: Can you tell us whether there are many foreign banks in this country the majority of whose shareholders are Indians?—So far as my information goes there are a good many Indians who are shareholder in these banks.

5524. How do you find the treatment meted out to Indians by these banks compared with other Indian banks?—I believe, there is difference in treatment.

5525. Even in the matter of affording facilities?—Possibly, even there.

5526. *Chairman*: Is it your experience that even in an Indian bank managed by a European, facilities for the employment of Indians in higher positions are not afforded on the ground that Indians with sufficient knowledge and experience are not available?—Of course, that is the plea put forward.

5527. *Mr. Devadhar*: The Bank managers have in some of my talks with them told me that the question of Indianisation is for the shareholders to decide and I should approach them to arrive at a decision with regard to the appointment of Indians in the higher ranks of bank management. Is that so?—After all, the responsibility of the management rests with the General Manager or whoever may be in charge, and even the Board of Directors sometimes find it impossible to influence the manager to any large extent, the reason being that the actual work of management is being done by the manager himself. The plea of the managers is that suitable Indians are not available for appointments in higher grades and the same will continue for some years to come.

5528. Now that we are on the subject of branch-banking, do you not think that branches of joint stock banks, if opened more extensively, will thrive in this country?—Yes, provided managers and agents for these banks are not imported from abroad.

5529. You think that suitable Indians will be willing to accept the posts on reasonable pay and they are also available?—Yes.

5530. *Mr. Ramdas Pantulu*: Do you know what the position in England is in regard to the obligation to the employment of Nationals in foreign

banks operating in that country?—I do not know whether there is any such obligation at all. So far as I am aware, the number of foreigners employed in England is in banks other than Exchange Banks almost *nil*.

5531. *Lala Harkishen Lal*: You said banking should be specialised in the secondary stage of education of a boy?—Yes, students, who cannot afford to have university education and who wish to enter into banking service should know the elements of banking and allied subjects before completing their secondary education.

5532. At what age do you want that banking education to be given?—Say, 14 or so.

5533. When would they get through that education?—Say, in 2 years' time, when they reach the age of 16 or 17.

5534. Do you not think that it is rather too early to start banking education at the age of 14?—They will merely learn the elements of banking.

5535. If they only learn the elements of banking which are not of much use, will any bank employ such boys?—Certainly, they will prefer to have such men rather than have matriculates who have had no banking education at all.

5536. Do they employ boys at such an age in banks when they are still minors?—I have found that in England boys attain their majority at the age of 21 and a considerable number of those who are below the age of majority are employed in banks. But in India the age of majority is 18.

5537. Conditions in England are different from India. Take conditions as they are in India. What knowledge would they gain in their two years' study of elementary banking?—They will learn elements of banking, currency, book-keeping, business methods and other subjects which would help them in their work as clerks in a bank or commercial firm.

5538. What do you mean by the principles and elements of banking?—What are the functions of a banker, what the responsibilities of a banker to a customer is and so on, can be learnt.

5539. A boy may know what the functions of a banker are, but how will a clerk make use of it in actual business-life. How will that concern him in his everyday life?—It will certainly concern him.

5540. Is there any text-book of that nature which deals with all the elements of banking and other details that you think should be imparted to such boys? Could you name any which can usefully be studied by elementary students?—Elements of Currency and Banking by Sykes would be useful.

5541. Do you think this book can be understood by a boy of 14 in India?—In the first year of training he may learn the elements of book-keeping, commercial correspondence, typewriting and so on, and in the second year of training this book on banking could be studied.

5542. What starting salary would you pay to such young men?—They may be started on Rs. 40 or so as circumstances and conditions of the different parts of the country demand.

5543. You say that under the new Regulations for the B. Com. Degree of your University, the subjects of Indian Currency, Banking and Exchange play a prominent part. Do you think that these subjects are of

primary importance which a student ought to know when he enters banking service?—This does not apply to persons who enter banks as clerks as well as to people seeking better class appointments.

5544. What are the better class appointments you are thinking of?—After, say 10 years of service, a man may be placed in a responsible position or put in charge of a section and so on when he may find the study of these subjects more useful to him. To begin with he will be given training in the various departments of the bank and at the end of that period he may be put in charge of a branch which carries responsibility.

5545. So these subjects which he studies for his B. Com. are practically of no use to him at least for a few years after he has entered the service of a bank. Is that so?—I do not accept that statement, but I only say that he will find a study of these subjects more useful in after years.

5546. How will that knowledge be utilised in every day banking life?—It may be that sometimes even customers might ask for some particulars of the bank employees and might like to know things such as the difference in the ratio, the reasons why the higher ratio is condemned, and as intelligent bankers they ought to be able to answer such questions.

5547. Is the higher ratio such a simple subject that every body who learns about banking knows all about it? My point is that even experienced bankers do not know much about it?—I do not deny your statement. But as regards other matters which a banker should know I might just give an illustration. I know of a case where a cheque which was drawn with a crossing and words 'Not Negotiable' written on the face of it was returned by an officer of a well-known bank who had nearly 35 years experience. He did not know what the words "not negotiable" signified and thought they meant "not transferable".

5548. Would you kindly tell me what text-books would you prescribe to train up Indian students to enable them to distinguish the difference between "not negotiable" and "not transferable" cheques and such other matters?—I am sorry I have to refer to my own book 'Banking Law and Practice' in which these things are stated. It is a fairly exhaustive book. That is all I can say.

5549. Is there any other literature on the question of banking as practised in India?—I have seen some other books of an elementary character. One Mr. Krishnamurthy has published a book and there are a few others. But many more books will be forthcoming if there is a demand for them.

5550. Would you confine your training of the B. Com. students to these text books or would you use English text books on the subjects?—Of course, English publications have to be studied.

5551. Is there any difference between the English and Indian banking systems and law?—There is some difference. I was responsible for the amendment of the Negotiable Instruments Act in 1922.

5552. Has any consolidated publication been made so far to cover completely the Indian banking practice and law?—I cannot say whether any exhaustive book has been published.

5553. What I am driving at is that we should provide for banking education books which are suitable for this country and I am referring to

the lack of literature on that.—I agree there is a paucity of literature, but many more will be coming when proper attention is paid to the study of the subjects.

5554. They ought not to study things which are of very little value to them, I mean that which they learn at present from the foreign banking publications?—I cannot accept your statement that there is not much use in studying the English banking practice. No doubt there are certain differences between the Indian and the English systems of banking.

5555. *Mr. Devadhar*: Do you mean to say that there is not much demand for the study of Indian banking today?—That is so.

5556. *Lala Harkishen Lal*: Is it not because that Indians are not largely employed in higher appointments in banks?—There is no demand in India at present because the higher appointments in India are at present in the hands of people who do not belong to India, and who hold the view that there is not much difference between the English and Indian law of banking.

5557. So far as there is a demand for trained men, is there a sufficient number?—No, because in the past there has been no particular attempt made to recruit persons with theoretical training.

5558. There should be a rule laying down certain minimum qualifications. Is it not?—Yes.

5559. You say those who take up Advanced Banking as their optional subject are required also to study the Credit Organizations of the principal countries of the world, Banking Law and Practice, and Advanced Currency problems. Will you tell me if there is any literature available on Credit Organization in India?—Yes, amongst others there is Mr. Thakore's book.

5560. That book deals with the organization of banking. Are you certain that there is such a literature and teachers to teach Credit Organization?—There is a certain amount of literature dealing with Credit Organization in India. There is also a certain number of people who are able to give such training. They might not be of the best type but there are such men.

5561. Is there a Banking Law? What do you include in Banking Law and Practice?—Only such principals as affect banking business, such as, cheques, loans and relationship between a banker and his customer.

5562. Do these books make any mention about securities and succession?—There are certain points which require greater study. Those books may not deal with law of succession, but that does not mean that the students should not know the fundamental principles underlying Banking Law of this country.

5563. So far as Banking Law is concerned, there is very little about it?—Yes.

5564. Then you make mention about problems of Advanced Currency? —Certain principles of Advanced Currency are applicable to India as well as to other countries.

5565. You also include Mercantile Law. Is it not?—Yes, for banking students it is one of the compulsory subjects prescribed for the B. Com. examination.

5566. You say it is compulsory to study all these laws?—No, it is not compulsory. Only those who take up Advanced Banking as an optional subject have to study also the Mercantile Law.

5567. You say Advanced Banking includes Banking Law. There are also other optional subjects such as the organization of the Indian Cotton Industry. Are all these laws of any use to a banker?—These are all the subjects for a banker. There are these five subjects which I have mentioned in the memorandum. A student who wants to take insurance law does not take banking or accounting, etc.

5568. Those who take up Advanced Banking as optional subjects are required to study all these laws. That is what you have mentioned in your memorandum?—No, if you will just read further, you will find it stated that commerce graduates of this University are required to have a fair knowledge of these Laws. The Indian Cotton Industry is not compulsory for those who take up Advanced Banking.

5569. In answer to the question from the Chairman you described a method by which candidates should be appointed in a bank. What we do is this. We advertise in a paper for the posts of candidates. For a senior post a graduate is selected, whether he may be B.Com. or B.A. For a junior post, we select an under-graduate or a matric passed. The applications received by us are handed over to an agent in charge of our school. He has no connection with the banking staff, but he is in charge of banking education. We ask him to select candidates, twice or thrice the number we actually want. Sometimes a few more are selected. Then these selected candidates are interviewed by a committee consisting of three directors of the head board, one director of a branch, the staff manager in charge of accounts, another manager in charge of investment department, etc. This committee examines them and gives marks. Having done this, we select as many as we want. Then these selected candidates are asked to join the school, where we have got lectures delivered, by which method these candidates get experience of accounts and banking routine. We give them our rules and regulations. Afterwards they are again examined and there is a selection again. Those who fail in the examination are asked to appear for the examination again This way we have started for the practical training of recruits for the Peoples Bank Limited. Do you think we are on the right lines?—Yes, your scheme is a very great improvement. But supposing the man in charge of the banking education is interested in a certain candidate, he may give a first chance to that boy and there will be grumbling.

5570. Grumbling is always there. Even with this committee there is grumbling. You cannot help it. We do not know how to judge the character of a man. We do not depend on any chits (recommendatory). These chits we find very defective at times and we are of opinion that we cannot know the character of a man from these chits.?—You may measure his character from the certificate of the school, as they give such certificates in schools and colleges.

5571. I am of opinion that a great quality which is required in a man serving in bank is honesty?—Yes, but after all you cannot judge a man as honest by simply looking at him.

5572. *Chairman*: I shall now give you three questions from the memorandum submitted by Dr. Nemenyi of Hungary. He says: (1) "It can be safely laid down as a principle based on wide experience that there is very little connection between the development of banking in a certain country, at a given period, and between the existence, or not, of a specialised banking education." Do you agree with this?—No.

(2) He further says: "Comparing the question papers of the 'Associate Examinations, 1929' of the 'Indian Institute of Bankers', one has to emphasise that 99 per cent. of European bank assistants, clerks, etc., on the Continent have never gone in for studies of economics, and currency of the same high standing, and that, they could not answer questions relating to the economics of their own country of a type, similar to those asked in this country."

The third quotation is: (3) "A young man who after passing his examination as a B. Com. or a B.A. of Economics will suddenly find, when getting a job in a bank, that all he has to do for the next 10 or 15 years consists of mere clerical work of a very low grade. In most cases he will forget all the theories he has learnt in the college in a very short time, as he will have no chance to utilise them in his daily work. The psychological effects have also to be mentioned. A young man studying the theories of economics, currency, banking, etc., will be very much disappointed to find that he has no use whatsoever for the subjects he has studied, a feeling which will be very depressing." My personal experience leads me to the same opinion. You talk of what has been done on the continent and if you will send us a communication informing us as to what they are doing there, it will be very useful.—In my memorandum I have given an extract from an interesting article entitled "The Training of a Bank's Staff" by Mr. J. G. Holt.

5573. He does not state there that a man who joins a bank gets all the facilities there.—In England, as I understand, they give all the facilities for training to the employees of the banks. If the knowledge attained in school is of no use, I do not understand why the banks should prescribe any examinations.

5574. It is simply to give encouragement at a stage when the boys should know that further education will be of real use?—In the banks in England there is a particular attraction. When a boy goes up for an examination they give him all the fees and a certain amount for books for education. Then he is also given promotion after his examination.

5575. *Dr. Hyder*: Your object in giving specialised knowledge in banking law is that these subjects will serve as general culture and they would be helpful to a banker?—Yes.

5576. *Mr. Devadhar*: You know that several of us have studied subjects like higher mathematics, history, commercial geography, which are not of everyday use. I think your point is that a knowledge of these subjects does conduce to one's efficiency in the banking line. Is that correct?—Yes.

5577. If that is correct, then you would be perfectly willing to introduce those subjects?—As I have already stated in my answer to one of Dr. Hyder's questions, our object is not to train people merely in subjects which are of practical use to them as bankers only.

5578. Now we have read Shakespeare and we have studied Chaucer; but in our everyday work or conversation we do not refer to them at all. Do you mean to say all that is of no use in building up our knowledge?

5579. *Mr. Manu Subedar*: May I ask, Sir, if the reading of Chaucer has increased Mr. Devadhar's knowledge of anything?

5580. *Lala Harkishan Lal*: You have no doubt heard that the Peoples Bank, within the course of 9 years, established as many as 72 branches. Now all the men employed there had been trained within the institution: they had received no education on the lines to which you have been referring. Having known all this, do you still think that we cannot carry on with the facilities that we have at present, I mean without those fine degrees and the education that you recommend?—I do not say that banking cannot be developed without such education; but I maintain that it would be developed better if we had a staff who had had such training.

5581. I have had before me, as a practical banker, the question of the law relating to banking, and we have had collected extracts and comments on about 57 Acts. (A book was at this stage passed on to the witness and later handed round to the members present). Do you think in this collection we have wasted our time or our money?—I would be the last person to say that you have wasted your time. Of course it would be very difficult for me at the same time to express any opinion about the book itself.

5582. Does not the book contain all that is required to be worked in a banking institution? Have we put in it anything that is superfluous?—No doubt, most of the heads which I see before me are useful.

5583. If this agrees with your views, do you not think that when time comes for a demand to be made for text-books of this kind, this could be regarded as an effort in that direction? It is a collection of comments written by a very clever lawyer to whom I have had to pay Rs. 5,000. He has given comments on the whole law relating to banking. In my own day to day administration I find difficulties every day and this is the first attempt to solve some of those difficulties; of course we are bringing out some other volumes, one pertaining to Provinces and the other pertaining to Indian States.—That would be a good thing.

5584. *Chairman*: It has been suggested by the Bombay Chamber of Commerce that the Indian Institute of Bankers should form a means of liaison between bankers and educational institutions. Will you kindly expand the idea and indicate what the institute may be expected to do in the matter? Can you also give us information regarding the work done by the University Bureau in London as a liaison between the University and business houses in London?—With regard to the first part of the question I should say that the Institute can approach educational institutions and ask them to arrange courses of lectures of particular interest to the bank employees. The Institute can ask its members to send enquiries for candidates of certain types if they are wanted by certain banks and these enquiries can be passed on to the educational institutions. These are the two ways in which the Institute can be of help as a sort of liaison between the educational institutions and the banks. With regard to the University Bureau in London, I think that, as far as my information goes, it acts as a centre where enquiries for various kinds of officers or assistants who are required by certain banks are sent. And the University is required sometimes to arrange courses of lectures of particular interest to bank employee.

5585. Has your Institute taken any action in that direction?—My institution has organised evening lectures for the benefit of bank employees and we charge no fees at all. The idea is to provide facilities to bank people who otherwise cannot attend regular classes or terms. We have been doing that for the last few months.

5586. Have you approached the Bombay University or any other University to start lectures of the nature you refer to?—The work which the Universities elsewhere would be doing is being done in Bombay by the Sydenham College of Commerce. If I were to approach the University, they would simply pass on the same request to me and say, "Please arrange lectures."

5587. You state that most Indian joint stock banks have no definite scheme for the recruitment of staff officers. In view of what Lala Harkishan Lal has stated from his own experience, your statement is not wholly correct, since so far as his bank goes, he has a definite scheme of recruitment.—That scheme must have come into existence very recently; at any rate, I am not aware of it. As I said, I am not aware of any scheme adopted by banks in general.

5588. Have you any scheme to recommend for adoption by banks?—We cannot lay down any hard or fast rules in regard to recruitment in the various banks because their requirements differ so widely. There may be banks which have only one office while there are some which have a number of branches. Therefore the scheme of recruitment, which suits one particular type of bank, may not suit another type of bank. Arrangements should of course be made by which the candidates are examined. Here in this Committee the view has been put forward that the candidates may be examined after selection is made. The view that I have placed before the Committee is that the candidates may be examined by means of a written test first and then interviewed. So the difference is not very great. That is the general principle which I could put forward.

5589. If I may correct you no view has been put forward; only certain suggestions have been made to elicit your views in regard to those suggestions?—I am told that the number of people to be examined is restricted by means of an interview either by an officer of the Imperial Bank or by some one else and those candidates are examined by means of a written test and after that a selection is made. What I suggested was that a written test should be first set and then people who come out among the first 10, 20 or 50, as the case may be, may be interviewed and selection made out of that number.

5590. And you recommend a similar scheme for adoption by the Indian joint stock banks?—I would favour that.

5591. The Institute state that it is desirable to send young Indians after a good training in banks in India for a practical study of international exchange and the various problems connected with currency and exchange in exchange banks abroad, if it could be arranged by Government. I presume you refer to young Indians who are employed in banks in India doing exchange business and who could, after training in exchange banks abroad, hope to occupy positions of responsibility in those banks?—The Institute was probably referring to the case of persons who have received already a certain amount of training and who want training in international exchange business or business of that type

5592. With a view to employment in banks doing exchange business?—Yes, or with a view to starting Indian exchange banks.

5593. *Mr. Manu Subedar*: When the Council of the Institute made this suggestion, did they expect that the exchange banks would admit

Indians freely for this kind of training in England?—I am afraid that this question was not discussed at the meeting of the Council. I do not think it was their view that the exchange banks would be glad to employ these people or that requisite facilities would be obtained.

5594. *Chairman*: It is not a question of employment. His point is whether it would be possible to secure facilities.—My personal view is that it would be extremely difficult.

5595. *Mr. Manu Subedar*: You have some exchange banker on your Council, and I take it that this statement has been looked at by him as a representative of his Association and that he thought it necessary that the statement should go in this form, not as a matter of course but if it were arranged by Government. In other words the Council thought that unless Government took the initiative there was no chance of getting Indians to secure these facilities in England.—The view of the Council was that it would otherwise be very difficult.

5596. Supposing the exchange banks were requested by Government on the recommendation of this Committee, to do this and they refused to do so. What would you do then?—I do not think there is any law under which Government can insist or force them to provide the requisite facilities.

5597. *Mr. Buckley*: With your experience in London, Birmingham and elsewhere, do you think it is a practical proposition that Indian students who go from this country to study international exchange and various problems connected with Currency and Exchange can learn anything beyond mere routine work?—Nobody has suggested that Indian students should go as such.

5598. At what age do you expect them to go to England?—After they have received practical training in India for, say, 5 or even ten years.

5599. Do you think it is a practical proposition?—There is nothing impractical about it so far as I can see.

5600. If I told you that the officers of the exchange banks who get, say, 3 years' training in London before they come out to the East, learn nothing whatever of exchange or international exchange business, how could Indian students or bankers get such training?—I do not know at all whether it is impracticable. I know that a certain officer of the Government of India was sent to the Midland Bank and with a certain letter of introduction he was able to work in two or three departments and one of them was Exchange. And similarly I know a certain number of Indians are being sent by the Punjab National Bank—I think to the Midland Bank. I do not mean that a whole army of students should be sent out for the purpose; just a small number should be trained.

5601. *Lala Harkishan Lal*: To my mind, the training of an exchange banker is at the firm of brokers. The exchange business cannot be learnt at the bank; it is possible only through brokers.—You learn banking and other similar things from the right party, and that right party in this case is the broker.

5602. *Mr. Manu Subedar*: Do you think it will be possible for any exchange banks, with their present jealousy and rivalry, to undertake to train Indians in exchange business and thus expose themselves to competition

by the people trained by themselves?—I do not know whether I should take that extreme view which you are taking. There are cases in which young men are given training in certain Solicitors' offices and then the same youngmen set up their independent business in competition with those solicitors. I think the same thing is possible in the case of banks.

5603. *Mr. Khaitan*: When Mr. Buckley said that it would be an impracticable proposition, I am not sure whether he really meant impractical or unnecessary. Let us analyse the question from both points of view. Are you aware that certain Indians have been to London and have received their training in certain insurance offices there?—There, again, there has been a great difficulty.

5604. Difficulty or no difficulty; the fact is that there have been some Indians who have received training in insurance offices in London.—Very few only.

5605. Let it be even one. Are you aware of the method by which they are given training. They are first put in one department, then in another and then in a third, so that they are able to get full training in the business. Now is there anything specially in banking as distinct from insurance office which would preclude a bank from giving the same kind of training to an Indian?—Of course, what I understood was that if these banks were to know that these youngmen would later on set up rival institutions which were going to compete with them, there might be some difficulty. If, however, I go to an insurance office in London and if that office is not interested in Indian business, then of course there may not be that feeling.

5606. If the exchange banks are not overwhelmed by any feeling of jealousy or rivalry, then there should be no difficulty for the training to be given to an Indian?—No.

5607. *Lala Harkishan Lal*: Banking is different from insurance. In insurance, decisions are taken according to certain rules; in banking they are taken by experience.

5608. *Mr. Khaitan*: I am putting this question because up to the present moment the Exchange banks in India have not employed Indians on their superior staff. It may be attributed to their having received inadequate training or to their unfitness for employment in exchange banks. But if by 'impractical' Mr. Buckley meant 'unnecessary', can you give any reasons why Indians should not be given superior posts in banks in India if training is unnecessary?—I think it is rather a question for Mr. Buckley than myself.

5609. Is it not, in your opinion, due mostly to a habit of thinking in India that unless a person has received some training abroad, he is not a fit and proper person to be employed in superior positions?—My feeling is that for foreign exchange business, training of that type is unnecessary.

5610. You consider it practicable to obtain such training in England?—Yes.

5611. And in India also?—It is not absolutely essential that people must be sent to London. No doubt in England or in a bank which is dealing with foreign exchanges in different countries, the opportunities are greater. In India if you have an Indian Exchange bank dealing largely in two or three different kinds of currency, it would be possible to

give the training. The position would not of course be as good as it would be in England. but it does not mean that a person must go to London to get that training.

5612. When you say that opportunities are greater in England, you mean that the London banks have to deal in exchanges of various countries; whereas in India it depends wholly on the Indian money market—In India it may be rupee and sterling or rupee and yen only, whereas in London it would be exchange between England and so many other countries, with varied currencies, *e.g.*, franc, mark, dollar, etc.

5613. *Chairman*: The Bombay Chamber has suggested that in the Universities a special chair might be instituted on the subject of indigenous banking. Will you kindly tell us if you would like to have separate chairs for modern banking and indigenous banking or would you favour the establishment of a chair for banking generally, leaving it to those students of the University who wish to join firms of indigenous bankers to be apprenticed to such firms for practical training?—I do not agree with the views of the Bombay Chamber.

5614. You begin your statement by saying that "the Council agree to the replies already submitted by the Chamber of Commerce, Bombay." You are representing the Institute. Do you say that your Institute does not agree with this particular suggestion?—This particular question has not been addressed to the Council and therefore it has not been considered separately, but certainly I do not think that my Council would support the view that there should be a special chair for indigenous banking.

5615. *Mr. Devadhar*: Do you mean to suggest that you are not in favour of the system of banking being divided into indigenous and other types of banking?—I am not in favour of having a chair for indigenous banking, but I am in favour of having a chair for banking, and the professor in charge of that subject will deal with indigenous as well as other types of banking.

5616. If the University accepts the suggestion that there should be a special chair for indigenous banking, would you accept the suggestion?—I do not think that there is any chance of either the University accepting the suggestion or a lecturer being found who would specialise in the subject of indigenous banking. That part of specialisation will come, perhaps, after 20 or 30 years. We have not a chair for banking and we cannot have a chair for indigenous banking at this stage.

5617. There is a large amount of work done by indigenous banks?—Nobody denies that, but it does not mean that before we have a chair for banking we should have a chair for indigenous banking.

5618. *Chairman*: Can you tell us from your personal experience of your pupils whether they have been employed in fairly large numbers in the Imperial and joint stock banks and whether after receiving sufficient practical training they have experienced any difficulty in rising to positions of responsibility in such banks?—There are a number of my students who have risen to good positions, both in the Imperial as well as in the joint stock banks. But there is a certain amount of feeling among some of these young men who are employed in various banks that their promotion to superior appointments or positions of responsibility is hindered to a large extent by the recruitment of staff officers in England by the Imperial Bank. Persons who have worked in England for a few years in a bank

are brought over to India and they stand in the way of the promotion of these young men. Otherwise, I have no personal complaint. Of course, there are cases where my students have experienced no difficulty and have risen to positions of responsibility, but I have received complaints also as stated above.

5619. *Sir Purshotamdas Thakurdas*: When you talk of the Imperial Bank, you have in mind the Bombay branch of the Imperial Bank?—No, I refer to the bank in general.

5620. Have you any knowledge of the Imperial Bank's recruitment in Madras or Calcutta?—Yes.

5621. Do your pupils go there?—My pupils come from different parts of India and therefore I also get news about recruitment in other parts of India.

5622. You mean that the recruits in the Madras Circle and in the Bengal Circle are also students from your College?—Some of them.

5623. Do you know if the Imperial Bank in Bombay has brought out anybody from England during the last year?—I could not say about the last year, but during the last three or four years, young men have been brought out from England.

5624. Do you know that the number has been steadily going down and that during the last twelve months not a single man has been brought out?—I do not know.

5625. If that had been so, would you consider the position satisfactory?—Certainly.

5626. When you make a statement of the kind you have done, you might have made enquiries before making it?—I made enquiries some time back, about 2 or 3 years ago.

5627. What you have said is based on information collected two or three years ago?—Yes.

5628. *Dr. Hyder*: Do you not have occasion to read the annual speeches delivered at Bombay or Calcutta?—I have been attending the meetings of the Imperial Bank and I do not think this sort of information has been forthcoming in the past. Only in the last speech there is reference to it.

5629. *Chairman*: We have heard complaints from co-operative banks and gentlemen interested in the co-operative movement that your Institute is unsympathetic to this particular class of banks and that you do not take in your Council a single representative of co-operative banks. Can you say anything on that point?—I do not know what grounds the co-operative banks have for their complaint. We have no representative of the co-operative banks as such, but indirectly I may say I represent the co-operative banks. I am on the Board of the Bombay Provincial Co-operative Bank and I am a member of the Council of the Institute. It is true that no seat is reserved for a representative of the co-operative banks.

5630. Your Council is composed of people elected from among the fellows?—Yes.

5631. Therefore, unless the manager of a co-operative bank or a gentleman interested in the co-operative bank or in the movement generally becomes one of your fellows, he cannot become a member of your Council.

A certain procedure has to be followed. Is that not so?—But the procedure to become a fellow is not very difficult. Any person who is fit can be elected as a fellow.

5632. Are you aware of any cases in which a gentleman who is, say, a manager of a co-operative bank or is otherwise interested in co-operative banking was not allowed to become a fellow of your Institute?—I do not know of the application of any such gentleman having been rejected. As a matter of fact, I did speak to a gentleman and somehow or other, he has been hesitating to send his form; otherwise there would have been no difficulty.

5633. There is no bar, as your constitution stands at present, to such a gentleman becoming a fellow and thereafter becoming a member of the Council?—Certainly there is no bar.

5634. Another point which has been raised is that the curricula for your various examinations do not specifically provide for co-operative banking. Can you say anything on that point?—We have not felt the necessity for it at the present stage, later on we may include it.

5635. But is not co-operative banking at the present moment a very important branch of banking in India?—We started our examination, as I have stated, only about 18 months back, and we have just begun our work. Our attention has not been drawn to the need of having that subject.

5636. Would it be necessary for somebody else to draw your attention to the fact or would your Council of its own motion take the matter into consideration?—The Council can take it on its own motion. The point is whether co-operative banking is to be prescribed as an optional subject or as a compulsory subject. If it is to be optional, I do not think there ought to be much difficulty.

5637. You, as a member of the Institute, would be inclined to look at the matter with sympathy?—Yes.

5638. That should be so, because you are also interested in the co-operative banking movement?—You may put it that way.

5639. *Mr. Manu Subedar*: You have instituted this examination of the Institute of Bankers, the model being very largely of the London Institute of Bankers?—Yes.

5640. Has the number of boys appearing for the London examination, which is being held in India, diminished on this account?—I believe it is diminishing. It will take some time before there is a marked decline in the number.

5641. Has the prestige of your examinations increased and the desire to hold the London branch gone down?—As a matter of fact, the London Institute is not keen to hold these examinations. I may mention for the information of the Committee that when the proposal to start the Indian examination was discussed by me with Mr. Sykes, the Secretary of the London Institute, in 1924, he said that it was not desirable for Indian students to join the London Institute for the reason that if the Indian student who has to work in Indian banks is required to study the English banking law, he will have to forget some of its principles when he is actually working as a banker. For these and other reasons, Mr. Sykes gave a letter to the effect that he was in favour of India having its own Institute.

5642. Are boys spending a lot of money in connection with the London examination?—No, I do not think the expense is great.

5643. The drain is not serious?—Not at all.

5644. You would think it desirable both for the sake of uniformity and in the interests of the candidates themselves that they should take the Indian examination?—Certainly I would prefer the Indian students taking the Indian examination.

5645. You would very much prefer the discontinuance of the London examination in India?—Gradually; we must give sufficient notice.

5646. Has your Council written to the London Institute pointing out the desirability of discontinuing the London examination in India, in view of the fact that you have yourself instituted a more suitable curriculum of studies for examinations in India?—The London Institute, as far as I understand, will give up holding their examination as soon as they find that the number of students appearing for it is decreasing.

5647. In how many years do you expect them to do it?—In three to five years.

5648. You expect then that the Indian Institute will hold the field and that there will be no more rush for the London examination?—Yes.

5649. *Dr. Hyder*: I have here the question papers of the Indian Institute of Bankers' examination for 1929. The first paper is on the "practice and law of banking." To answer this paper, I understand you require a knowledge of the law of banking of the Indian Companies Act and the Negotiable Instruments Act. Are these the principal Acts?—Yes, these are the principal Acts. The term 'banking law' does not mean any codified law as such. The term refers to those principles of law which apply to the business of bankers. If it is a question of contract, of course the law of contract applies. If it is a question with regard to negotiable instruments, of course it is the Negotiable Instruments Act which applies. If it is a question of, say, a title to real property, it is the law relating to property.

5650. You would include in the term 'banking law' these different Acts in so far as they bear on the business of banking?—Yes, there are certain Acts, of course, which are of particular importance, *e.g.*, the Negotiable Instruments Act to the bankers.

5651. Would you not include in the study of the miscellaneous Acts also the law applicable to co-operative societies?—My own feeling is that it might be put as an optional subject.

5652. Optional as regards the whole movement and to be taken up by such candidates as would be employed by the co-operative banks?—People applying for service in the co-operative societies might take it.

5653. So that such a paper would include not only the law on co-operation, but everything round about the movement as a whole?—I do not know whether I would go to that length. I am concerned with certain principles in general.

5654. Our difficulty is that we have to recommend something definite, *e.g.*, in future examinations held by the Indian Institute of Bankers either the law applicable to co-operative societies and the case law should be made the subject of a paper or that co-operation by itself, together with

the law, should be included as a subject of the examination—I should suggest that co-operation and case law should be included in one subject.

5655. *Lala Harkishen Lal*: I put it to you whether students should have the knowledge of the Acts, by-laws and regulations?—As a matter of fact, it is very difficult for the Institute to lay down any syllabus of this kind. Certain provinces have their own Acts. If this is done, the question will arise whether the Punjab and Bengal students are to study the Bombay Act or the Burma Act or the all-India Act. Unless some very general principles which are common to the various Acts are laid down, it would not be possible to lay down that the students should know the co-operative law as it is applicable in different parts of the country.

5656. *Chairman*: I thought you replied that it is only the principles of banking law that the students are required to know. It would not be difficult for some person who takes an interest in the co-operative movement to prepare a volume bringing out the essential features of the co-operative law, including the principal by-laws, etc.?—If it is restricted to some general principles, it should be possible to include the subject of co-operation, but if you wanted that the students should know the Acts in the different provinces, it would certainly be difficult.

5657. *Dr. Hyder*: Are commentaries written by lawyers, say on the Negotiable Instruments Act and other Acts bearing on banking, used as text-books for the "practice and law of banking"?—They would not be of much use. They are not as easily accessible as books in banking law and practice.

5658. But of course they would be the books to elucidate the law?—No doubt; there are some very good commentaries on the Indian Negotiable Instruments Act, but the commentators do not usually look at these sections exactly from the point of view of the banker. They would be helpful, no doubt.

5659. Let us take Part II of the examination paper on English literature. You would expect an Indian boy to have a working knowledge of English, *e.g.*, that he should be able to write letters—That is one kind of knowledge, it is not the only thing. Every young man who is entering into the banking career, particularly one who wants to aspire to a high position, ought to be able to express himself properly in the English language.

5660. Are these papers modified by any Moderation Committee?—At present we have no moderation committee.

5661. In the paper on "English Composition" one of the questions asked is: "Explain fully with illustrations five of the following terms:—metaphor, antithesis, bathos, climax, hyperbole, euphemism, tautology, solecism." Of what use is this question and how many students would be able to answer it? Do we not demand too much and are we not too bookish and do we not run away from real practical views? Are we not wasting our national energy?—That may be one of the optional questions.

5662. Take, for instance, the paper on commercial geography. One of the questions is "state the situation of and describe Czecho-Slovakia." Is a young boy of 16 years expected to answer it?—Every banker ought to have a certain amount of knowledge in geography and that is the reason why the question is there. I do not find any particular fault with that question at least.

5663. The Sydenham College of Commerce was started in 1913, is it not?—Yes.

5664. How long have you been connected with that institution?—Since the beginning of 1915.

5665. How many students have you on the rolls for the B.Com. Degree?—We have at present about 312.

5666. How many students appear for the final examination every year and how many pass fully qualified to take their degree?—50 to 65 students generally appear every year and about 20 to 30 pass out every year.

5667. What happens to these boys after passing out? Are they able to get decent positions?—Some of these people enter banks, others take to commercial business, while some others practise as Accountants and Auditors.

5668. Is there any unemployment in regard to these men?—There may be some slight unemployment, but it is not appreciable so far as my institution is concerned.

5669. Is it not a fact that a majority of these B.Coms. do not find an entrance to business life and they drift on from the B.Com. to the LL.B.?—So far as I am aware there is practically no drifting. Most of my students who pass out are employed in some commercial institution or other. Some of my students are employed in the Income-tax Department but so far as I am aware, there is no such drifting.

5670. So you have not found any difficulty in regard to these men?—No.

5671. You know there are several Universities in India and if everyone of these were to start the B.Com. Degree, do you think that these people would be able to secure positions in life?—I am not advocating that every province or every university should institute the B.Com. Degree. I might say that in the United Provinces there are 5 universities, but so far as I could see there is no scope for more than one College of Commerce; and as a matter of fact these institutions would be starving in the matter of students and even the requisite staff.

5672. What we find in the U. P. is this, that these men who get their degrees do not find it possible to get bread and butter?—That is bound to happen if all the various universities were to compete with one another and try to produce stuff which is not marketable.

5673. What view do the businessmen generally take of the alumni of your college?—I have had several letters from leading industrialists and other business houses and so far as I could see they have all a very good opinion of them and are favourably inclined towards the institution. Of course, there is a certain element possibly of commercial men who look at it with a certain amount of diffidence.

5674. With regard to the scheme of bifurcation contained in appendix B, regarding the training you impart to young boys in commercial education, do you find it difficult to place them properly after their training?—This examination was started only recently, but we have had no difficulty whatsoever till now. I know that several matriculates join these commercial classes who after completing their school education wish to take commercial or clerical appointments.

5675. *Mr. Rushforth*: In regard to the reply which the Indian Institute of Bankers have given with regard to the question of higher training for Indians in banking outside India, I notice your answers are in striking resemblance with that given by Mr. Pochkhanawala except with this difference that you are a little more definite on the point. It seems to me that in regard to this there is some practical difficulty. Your idea is not to send out young men for practical training in banking abroad but only to send out men who have already gained sound experience in this country in banking both theoretical and practical, men who are already working in banks possibly in responsible positions. Therefore, the real difficulty seems to me to apply to this end and not the other, because to go abroad and have conversations and such other things with well-known bankers in London on the continent or America, it would be difficult for Indian bankers who are already in this country to arrange as their managers would not be willing to grant them leave. How can you get over that difficulty?—First of all let me make my position clear. These people go abroad not for seeing the country or having conversations abroad, but to have actual practical training in the methods of working of some of the leading banks in England and other countries. Secondly, there would not be any difficulty whatsoever to suitable Indians finding it possible to get leave from their banks in this country.

5676. What I am trying to point out to you is that there is not much difficulty in getting letters of introduction to leading bankers abroad but the real difficulty will be at this end.

5677. *Mr. Lamond*: I might for your information say that what Mr. Rushforth says is quite correct and I should like to point out how only a little time spent in London or on the continent would be most useful from a banking point of view. I spent 3 weeks in London. I took my own notes after visiting several banks at work, I studied the branch accounts and how they were adjusted, I learnt the general book-keeping and methods, and on the whole I found the knowledge and experience gained in that way was invaluable to me.

5678. *Mr. Rushforth*: I do not see how your local institution would spare the services of an experienced man who is already in its employ for training abroad and possibly for employment abroad as well?—I do not think there will be any difficulty.

5679. You do not think there will be any initial difficulty?—No, none that I am aware of.

5680. *Mr. Jadunath Roy*: You suggest that young men who have had already some training in banking in this country should be sent abroad for training. Would not such facilities be obtainable in India if the exchange banks would undertake to give them?—A certain amount of foreign exchange business can be learnt in this country, but the facilities for training are better in London and elsewhere than here.

5681. But is not the ideal of training the same?—I think different problems are studied by having a training abroad.

5682. *Mr. Jamal Mohammad*: You say that banks in India as a rule do not provide any special facilities for the training of boys in banking business. You say further down that the Bank of Mysore Ltd. takes up

graduates as probationers and it is understood that the commerce graduates taken into its service by the bank have turned out well?—These are the words quoted from the reply we received from the Manager of the Mysore Bank. The position of the Bank of Mysore is slightly different from other banks. I believe there is a certain amount of State control and that is probably responsible for the fact that they have made some attempts to train up probationers.

5683. But what about joint stock banks? How is it they do not provide the facilities required for training Indians?—Most of these Indian joint stock banks are also managed by Europeans and they naturally prefer people who have had some practical training in English banks to people who have had no such training.

5684. What I am trying to point out is that these European Managers have no justification to go in for foreign recruits, leaving out the Indian candidates. Do you think there is any dearth of qualified Indians at present? Do you not think that Indians would do very well in such posts? —I certainly think that they would do well.

5685. You say that at present recruitment for the staff appointments in the Imperial Bank of India is very largely made in England from among the very junior members of the staff of the English and Scottish banks, but when the Vice-Chairman told you that it is not a fact now, you modified your answer to a little extent?—I have been told that it is not a fact at present, but so far as my knowledge goes, I have put down my views in the memorandum.

5686. *Mr. Manu Subedar*: Are you satisfied with the extent of Indianisation carried on by that Bank?—I should say that the statements that I have made are quite correct and are based on facts which I had in my possession some 6 or 8 months ago when I wrote this memorandum. I do not know what has happened since.

5687. *Chairman*: May I remind you of what you said in reply to Sir Purshotamdas Thakurdas. You admitted that you wrote this on your information obtained 2 or 3 years ago. Is that not so?—Yes.

5688. You say that exchange banks generally engage Indian staff for clerical appointments and that recruitment for higher appointments is made abroad. In your oral examination you said that at least a beginning might be made by these Exchange Banks by appointing Indians to lower appointments such as those of Accountants. Did you suggest it because you think competent Indians will not be available to take up posts as bank managers?—I do not mean to convey that Indians are not available but my only point was that since the shareholders of these banks were mostly foreigners and had their head offices abroad, they might not be willing to take in Indians straightaway as Managers and that is why I suggested that a beginning might be made in the way I indicated.

5689. Almost all the countries in the world are doing their own foreign exchange business. Do you not think that given the proper facilities and opportunities Indians would be certainly in a position to do their own foreign exchange business?—Certainly.

5690. You say that there is little combination of the theoretical and practical training in banking. Can you tell us why it is so?—The chief reason is that the bankers in India do not give practical training.

5691. Whose business it is?—My opinion is that there is no reason why the banks should not give this training. But they say that if a man wants to work in a bank for two hours a day, he does not do enough work which will compensate the bank's manager or assistant manager who has to spend time for giving him training.

5692. Have you any suggestions to make?—My opinion is that banks ought to provide for such training.

5693. *Mr. Devadhar*: Have you seen any book written in Sanskrit about the old system of banking?—I am not a Sanskrit scholar, but I have read references to the old system of Indian banking.

5694. Are they helpful for the modern method?—These references are not very useful. But from the historical point of view they are useful.

5695. But if we study that system and see whether that will be useful for the European system, can we do so?—Yes.

5696. Do you think it is of any use sending our men to foreign countries to learn their system?—I am not in favour of going to foreign countries. I personally do not find any great use in sending young men to foreign countries at an earlier stage.

5697. Even for superior training; say after ten years training in India?—Yes. I am in favour of that suggestion.

5698. Are you in favour of grant of scholarships for such training?—Yes.

5699. By whom?—By banks.

5700. Would you like Government to give these scholarships?—Yes, if they give.

5701. If Government make such grants, would you also include a scholarship for employees of the co-operative bank?—It all depends on the amount which is available.

5702. I ask you this question not as to the quantity but quality?—The only subject concerning the co-operative bank is the development of marketing.

5703. But I find you include in your subject transport also?—I have given transport as an optional subject for the degree.

5704. Would you include marketing for B.Com. degree when you select students to foreign countries for further training in banking?—Yes. I would say that training is far more necessary at the present stage than co-operative banking.

5705. Some people say that co-operative banking is going to develop considerably. When it does form an important branch, will you favour the view?—Yes.

5706. The Scholarship scheme is for the promotion of banking education. And in that connection I may say that marketing will require banking?—Yes. But I say all this will come, if we have got sufficient money for the purpose.

5707. Why do you complain about publicity not being given to the accounts of the indigenous bankers?—I simply said that indigenous bankers should give publicity to their accounts.

5708. You do not want the banks to give publicity?—You mean Indian joint stock banks.

5709. Certainly?—They are registered under the Indian Companies Act and they must give publicity.

5710. *Mr. Khaitan*: Mr. Devadhar wants to know whether the exchange banks give publicity to their accounts?—They do not issue separate balance-sheets dealing with Indian business. What I have been advocating is that indigenous bankers should also publish their accounts.

5711. *Mr. Devadhar*: What is the reason?—They have not realised the advantage of publicity. They feel that if information regarding their capital, etc., will be known to the public that may create an unfavourable impression.

5712. As regards the organisation of the Institute of Bankers, have they got any classes for study?—Up to now there was nothing, but this year in Bombay we have started a series of lectures.

5713. Do these differ materially from the class of lectures we have in other institutes?—No, more or less they are of the same type.

5714. *Mr. Ramdas Pantulu*: Have you got a list of recognised bankers?—There is no list of recognised bankers.

5715. *Chairman*: You say that students of the Sydenham college are only sent from the recognised banks?—At present we have no list of recognised banks. We recognise all the banks. We have put the word "recognised" so that, if we want we can omit any of the banks.

5716. Is that Damocle's sword hanging over the co-operative bank?—No, even the students of the co-operative bank are allowed.

5717. *Mr. Ramdas Pantulu*: You say that only fellows of the Institute of Bankers are eligible for election as members of the Council. Will you kindly explain how the first Council was constituted?—The first Council was constituted of representatives of certain banks, or more or less the promoters.

5718. When this Council was constituted, they drew up the constitution. May I know if they had invited the co-operative bank?—I went there as a representative of the Bombay provincial co-operative bank.

5719. Were the other provincial co-operative banks invited?—I do not know that. There may be a representative of other co-operative banks in the meeting. That information will be available from the Imperial Bank of India.

5720. My information is that no other co-operative bank was invited?—I can neither deny nor confirm it.

5721. You say that the subjects mentioned in your memorandum are optional subjects. Are they obligatory or voluntary?—At present they are obligatory. Our institution has been started very recently and it is still in its infancy.

5722. Is there an additional paper in your college on co-operative banking?—Yes, the co-operative bank candidates have an additional paper.

5723. If you make calculations those persons who are in the co-operative bank can get employment on a salary ranging between Rs. 200 to Rs. 500. Compared to other banks, can you tell me what is their number?—That number is very small.

5724. Do you think that comparing the men in the joint stock banks except the Imperial Bank the men employed in the co-operative bank on a salary ranging between Rs. 100 to Rs. 500 is comparatively small?—I am afraid I cannot give you exact information on the point.

5725. My point is this that we have got 600 co-operative central banks and 8 provincial banks. I do not know about other provinces, but in my province, that is Madras, the secretary in the central bank gets from Rs. 200 to Rs. 250? In the Provincial Banks they get at least Rs. 400 or 500—How many secretaries are there in the Madras Province?

5726. I say about half a dozen who get Rs. 200?—You may say so. But my experience about the Punjab co-operative bank is that when I acted there as an auditor the managers and secretaries did not draw more than Rs. 50. Most of them were working as honorary secretaries. At that time the number of men carrying a salary of Rs. 200 was very small.

5727. That was quite long ago?—Possibly it was about 14 years ago when they did not engage qualified staff.

5728. The idea of replacing the honorary workers has been started recently?—Yes.

5729. My point is that the co-operative banks appoint men of good qualifications?—Yes, I quite agree with you. There was a time when the co-operative banks did not undertake business of current accounts.

5730. They are now beginning to do so?—Yes.

5731. When that is so, do you not think that you ought to consider a special course for getting more men trained for the co-operative banks. There are also some special subjects?—I do not see any reason why there ought to be any objection for the introduction of those subjects.

5732. Have the examinations held in your Institute been very popular with the banks?—Of course there has not been much time for these examinations and we cannot say that the examinations have become very popular.

5733. Have you prescribed a course for economics?—Yes. There is an elementary course of economics.

5734. Do you know if any university has prescribed commercial banking?—There is hardly any university which has done that.

5735. I may tell you that the Madras University has done that.—What steps have they taken?

5736. They have prescribed the elementary course of commerce?—I am aware of that.

5737. There is no necessity for any change being made?—No.

5738. At present the School Leaving Certificate to students enables them to appear for the London examination of Institute of Bankers?—Yes.

5739. Is the Matriculation examination allowed?—Yes. A good many of our candidates who appear for this examination are those who have passed the Matriculation.

5740. *Mr. Ramdas Pantulu*: You say that no information will be furnished to candidates about the number of marks that are required to secure a pass in the examination?—Yes.

5741. Who do you follow a different method from Universities in this case?—That is the method employed by several examining bodies other than Universities or schools.

5742. Why should not candidates know what standard they should satisfy and how many marks they should secure in order to get a pass?—Obviously it seems unfair to withhold that information.—Supposing we found that the paper in a particular year was a bit stiffer than in normal years, the Institute might allow people who have secured only 35 per cent. of the marks to pass that year, although the ordinary percentage for pass marks may be 40. That, as I have already stated, is the practice of various other bodies of a similar type. I know the Punjab University recently got into trouble. A case was filed against them because in the first examination a few students failed; and in the second examination they passed. The Punjab University has since given up the practice.

5743. I find that you prohibit men, who have already passed a certain examination, from appearing in the same examination for the purpose of securing some distinction or honour?—The idea is that a person who has already passed should not appear again and score distinction against a person who has passed for the first time; he should not be given any undue advantage.

5744. You said that you favoured the idea of people with certain amount of training being sent abroad with the help of the banks or with the help of Government or both. Do you think they would get the necessary facilities?—As I stated if proper steps are taken, it is possible; it is only a suggestion. I am told by a member of this Committee that there would be no difficulty at the other end and that any difficulty that there may be would be at this end only. Of course, the number of persons to be sent should be very small so that they can gain easy access to the different banking institutions in England.

5745. Do you think that the professor in charge of the subject of banking should be a man who has practical experience or training in banking?—Banking practice is not the only thing that a Professor of Banking should be required to know.

5746. I am speaking of the desirability of founding a special chair for that branch of the subject?—That does not mean a special chair in banking practice. But I would certainly welcome a person who is sound in theory and has in addition practical experience to a person who has had only theoretical training. But the difficulty is of finding suitable men at rates of pay which our Universities can offer.

5747. But if men are available and if funds are available, you would favour the idea?—I would certainly prefer it; but I say it is difficult in actual practice.

5748. Do you favour the idea of the students being asked to study Practice in banking in some institution in batches just as the law students study in law Chambers?—I have suggested that students should be allowed to spend their long vacations in banking institutions.

5749. Do you think that a special chair, in indigenous banking can be usefully established for teaching the indigenous banker modern methods of banking?—I am afraid I cannot commit myself to that view.

5750. You say that there is no need to have the B.Com. course in each University. Do you agree to a College of Commerce in each province?—Yes, but it depends on the individual requirements of the different provinces.

5751. If certain provinces want more than one college?—I have no objection.

5752. *Chairman*: I just want to put you one question regarding education in co-operative banking. If you think that you do not want to answer it, please say so without hesitation. In Bombay you have got a Provincial Co-operative Institute and one of the examinations it holds is the Bank's officers' diploma examination, and that practically corresponds to one of your Institute's examinations?—Yes, so far as designation goes; I cannot say that regarding the standard, though.

5753. *Mr. Ramdas Pantulu*: Can you tell me what is the reason underlying your suggestion that the examination of the Institute of Bankers should include only an optional paper on Co-operative Banking?—I take it that it really means three papers; in any case two, because you cannot leave out agricultural supply and marketing.—The answer is that the examination held by the Indian Institute of Bankers would have a higher status than the examination of the Co-operative Institute.

5754. That is all?—Yes.

5755. You say that the people who want to be employed in these co-operative banks must possess the diploma of the Indian Institute of Bankers in preference to the diploma of the Provincial Co-operative Institute. Is that the view?—The reason why there is that demand is that the standard of the Institute of Bankers' examination is considered higher. Another reason is that the Indian Institute of Bankers caters for the whole of India whereas the Provincial Co-operative Institute is confined to the Presidency.

5756. Do you not think that it would be desirable to add a paper on agricultural supply and marketing since it is so important from the point of view of the Co-operative Movement?—It is not so important from the point of view of a student of banking.

5757. It is now becoming increasingly important?—If in future a demand arises, I have no doubt that it will be included in the curriculum.

5758. Do you know if in Germany they have got an Institute of Bankers?—They have got a Bankers' Institute.

5759. Do they conduct examinations?—Yes.

5760. Is Co-operation one of the subjects?—I am afraid I have no information.

5761. *Dr. Hyder*: Have you got a good library at the Institute in Bombay?—Yes.

The last time I visited it, I got a list of just 42 books in that library. That might have been soon after the inauguration of the Institute. May I know the date on which this list was given to you? (The list was handed round to the members of the Committee).

NINETEENTH DAY.

Wednesday, the 17th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Lala HARKISHEN LAL.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. JADU NATH ROY.
Sir HUGH COCKE, KT.	Mr. G. K. DEVADHAR, C.I.E.
Dr. L. K. HYDER.	Mr. JAMAL MOHOMED.
Mr. V. RAMDAS PANTULU.	Mr. NALINI RANJAN SARKAR.
Mr. W. LAMOND.	Seth HAJI ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
MR. R. P. MASANI, M.A. (*Joint Secretary*).

Mr. V. C. Rangaswami Iyengar, Mr. Krishna Menon and Mr. Srinivasa Rao, representatives of the **Madras Central Urban Bank, Limited,** were examined.

5762. *Chairman*: Mr. Menon is the Director, Mr. Rao the Vice-President and Mr. Rangaswami the Secretary of the Madras Central Urban Bank?—Yes.

5763. You state that credit facilities are required not for floating industrial concerns or finding capital outlay but for helping current requirements. I take it that your view is that finance for block capital can be found by industrial concerns without difficulty from private subscriptions of shares or debentures?—Yes.

5764. You say that advances for current requirements should not be of a character always returnable within six months or a year, but must cover longer periods. Would you kindly give the Committee an idea of the maximum periods for which such advances might be required by the various industries in your province with which you are familiar?—The chief industries in the Southern Province are textile industries, oil-crushing, one or two sugar factories, trade in copra products, coir-making, and things like that on the west coast. Generally in these concerns the advances that the industries take from commercial or other banks do not provide them the credit facilities beyond a period of six months, and it is thought that this period of six months is not sufficient for them to realise the proceeds of manufacture and keep their engagements with the banks from whom they get the advances. I am of opinion that short period advances of three and six months are unsuited and provision must be made available for such advances continuing for a period of at least two years.

5765. Do you refer to advances for working capital?—Yes. It so happens that on occasions these industries have got to provide themselves with the necessary raw material, stock them, manufacture the goods, market them and get the proceeds out of the marketed quantities to enable them to return the advances made by the banks. It does really take in certain concerns more than six months and it is not possible for the industries to return the capital advanced to them by the credit institutions within such short periods.

5766. But is not the advance renewed if there is sufficient security?—There is a certain amount of uncertainty, the renewal actually depending on the chief executive of the bank from whom the advance is taken. There is a certain amount of chance in it and I want to see that the period of advance is made longer, so that the factor of chance is reduced to a minimum.

5767. Is it your desire that it should be made longer by legislation or do you want banks themselves to take a more favourable view of these cases and grant advances for longer periods, provided, I take it you concede, that there is adequate security?—It is absolutely necessary to have legislative provision, because under the existing Act advances are not made for a period beyond six months.

5768. *Mr. Lamond*: Are you aware of the present practice of the Imperial Bank in giving such finance for working capital?—They give advances on the continued security of stock and machinery.

5769. These advances are on a demand basis collaterally secured by stocks held from time to time?—We have a hypothecation deed executed in favour of the Imperial Bank and the bank advances on continued security.

5770. It is a continuing security against a demand advance and there is no question of six months, it is on a day to day basis?—It is a question of demand.

5771. Have you any working knowledge of how it is done? Such advances are not called up as long as the security is there?—Suppose an industry is started with five lakhs of rupees of capital and all that money has been spent in the purchase of machinery, site, etc., and in the course of development of that business some more additional capital was required. Public subscriptions will not be coming forward until a dividend is declared.

5772. That is not the class of advance we are now discussing.

5773. *Chairman*: One of you admitted that what I had assumed in the first part of the question was correct and that this statement did not refer to block capital, but only to working capital?—The overdraft on debentures and block capital includes raising of additional capital.

5774. We have done with that and we are now on working capital. If you turn to my question, you will find that I made a certain assumption and one of you said that that assumption was correct, which means that it does not refer to block capital, including capital for extensions. Therefore the point regarding giving advances for additional capital for purposes of development or extensions is not at issue at the present moment?—When we referred to money required for current expenditure, we had in mind raising of additional capital by debenture and blocks.

5775. Then the answer to the first part of the question has been wrong? —The answer was probably given by one of us without fully understanding the significance of what you said.

5776. If you now say that the requirements of block capital are not fully met by private subscriptions of shares and debentures, that is an aspect we can examine separately. We are now on current requirements, *i.e.*, what is commonly known as working capital?—As far as I know, and I am connected with some industrial concerns, there is no machinery in any bank to examine and correctly assess the value of any industrial undertaking, *e.g.*, whether it is successful or whether it is in a position to declare any dividend.

5777. May I suggest to you that advances for working capital are generally given against the hypothecation of stock of some form or other? That being so, the consideration you urge does not arise in the case of advances for working capital?—It may not be possible in all cases to convince the financing agency that the stock is really valuable.

5778. If you cannot convince the existing banking agencies, how do you propose to convince the new agency, whose creation you are probably recommending later on, that the stock is sufficient security for the advance? —The ordinary banking concerns have not the qualification to assess the value of industrial concerns.

5779. *Mr. Lamond*: Any stocks which a bank could lend against would be marketable and therefore would have a market value?—Suppose I carry a proposal to a bank to advance money against timber floated in the river.

5780. Would you call that a good banking security?—The banks will not consider it as a business proposition. Suppose I have a concession from a certain Indian Ruler to cut about 3 lakhs worth of timber and they are being dragged by elephants in the forest, the banks will not advance on the security of the timber.

5781. *Chairman*: May I point out that that was not the difficulty referred to in your memorandum? There the difficulty was that the finances were always returnable within six months or one year. You are now talking of cases where you cannot get any advance?—There are banks which consider such security a good one and we require such banks.

5782. My point is that it is a different proposition from the one which you have stated in your memorandum which we have been trying to pursue, though I admit it is a good proposition for examination?—We do not quarrel with the system of financing done by any of the existing banks. We want a suitable banking system which will finance this kind of requirement. We are not particular about which bank does it. If the existing banks will not do it, we require a different kind of banks which will do it.

5783. That is, you want a bank which will provide money without being satisfied about the security?—That is not our intention. If the existing banks are not conversant with this kind of business, we want other suitable banks which can go into these matters in detail and satisfy themselves about the concerns.

5784. How can they satisfy themselves? The specific case you mentioned was about timber floating in the river?—I shall pursue the question of financing timber.. On the west coast timber is financed by the Imperial Bank in an indirect manner. If the timber merchant wants

money, he executes a demand hundi for three months. He goes on changing this hundi every three months or six months. Practically the Imperial Bank is discounting these hundis.

5785. The Imperial Bank lends money in two ways, one on personal security and the other on the hypothecation of goods?—But they discount the hundis.

5786. That is a case of personal security. I do not want to pursue the matter, because I notice that you are changing your ground every five minutes. You began by saying that the advances made should not be of a character always returnable within six months or one year. As soon as I tried to pursue this proposition, you said that you want block capital for extension, then you said you want money for working expenses on the security of timber in the river. Therefore if you shift your position every time, it is impossible for me to pursue the matter.

5787. *Mr. Khaitan*: I agree that the language of the witness is not quite happy, but he is supposed to give us his views and the facts he has in his possession. Mr. Menon thinks that the timber floating in the river and the timber dragged by elephants ought to constitute good securities on the basis of which there ought to be some bank in India which would consider it safe to advance money.

5788. *Chairman*: If so, the memorandum should have been worded differently. If Mr. Menon had said that his difficulties are in regard to the obtaining of money for his extensions and developments and in getting advance for working capital in cases where the bank does not consider the security to be adequate, I should have entirely agreed?—We are not financial experts, we feel some difficulty and we only place them before you. There are some businesses in which the returns will not be easily obtainable within six months or one year and in which the facilities for repayment should be extended beyond that period.

5789. *Mr. Ramdas Pantulu*: Both Mr. Menon and Mr. Rangaswami adhere to the statement that financial accommodation is required for more than six months or a year, and that is the real point. Whether they get it or not is a different matter.

5790. *Chairman*: The proper procedure would have been for the witnesses to have kept their additional difficulties in the background until the difficulties specifically brought to notice had been discussed and settled. We shall now pursue the specific observations put forward. Let us make it clear who is going to be the chief spokesman. That will make the discussion a little more orderly. I do not of course mind others making observations?—Mr. Rangaswami: I shall be the chief spokesman.

5791. *Mr. Manu Subedar*: You refer to the formative period of industries and you refer to the early undeveloped conditions in which they find themselves. It is not very happily expressed, but what you imply is that industrial ventures in Madras are at present on a small scale, most of them are new and that they are experiencing certain difficulties?—Yes.

5792. You refer to the industry being placed on a self-supporting basis, by 'self-supporting' you mean that the industry should be able to carry on with its own financial resources?—Yes.

5793. You have in mind the shortages of finance at certain stages, irrespective of the use to which the finance may be put?—Quite so.

5794. Then you say that these shortages cannot be made up by advances for six months or one year which alone are available at present on certain kinds of security?—Yes.

5795. On certain other kinds of security no advances are available at all?—Yes.

5796. Working capital and block capital are very nice distinctions of which you may not be quite clear, but your difficulty is two-fold; firstly, when an industrial venture has been started and when a certain amount of money has already been sunk into it and when it comes to the point of working properly, if there is little shortage, you have no financing agency to make up for that shortage?—Quite so.

5797. Secondly, on stocks which are in process of movement or on stocks of certain kinds, the banks would not give any advance?—There are certain things in process of manufacture against which no advances are available.

5798. And you desire that machinery should be created or existing banks should be induced to assess the value of those stocks and make fuller advances than they are now making?—Quite so.

5799. *Mr. Devadhar*: Would you tell us how long the period of repayment should be?—I have said that it should be two years.

5800. Will that be a sufficient period?—Personally I think that should be sufficient.

5801. Do you expect to build up within that period some resources by means of which you can pay off the advances?—If such advances are made on things in the process of manufacture the finished product could be marketed and money realised for repayment.

5802. That is to say, within that period you will be able to provide for the repayment of the advance without causing any inconvenience to yourself?—I expect that in ordinary circumstances industrial concerns will be able, within a period of two years, to clear a major portion of the borrowed capital.

5803. Can you mention two or three industrial concerns which are at present languishing for want of adequate capital and which, if given advances repayable in two years, would in that time be able to repay the liabilities they have undertaken either by way of working capital or block capital?—We were discussing about working capital, which could be repaid by selling the goods manufactured.

5804. What about the current expenses?—That presupposes that the proceeds of the sale would not leave any profit behind. I never contemplated that position.

5805. *Mr. Devadhar*: May I know what industries you have in view?—I was talking about the textiles and the sugar industry. Supposing a person is running a factory with power and hand looms, he has to purchase yarn and meet other incidental expenses, his cloth will not be ready to be given as security for advances that he might require for further processes of finishing, printing, etc. Therefore it is that I say that it will not be possible for him to repay his loan within a period of 6 months.

5806. Do you know of many cases like that where people have suffered?—Yes.

5807. *Mr. Lamond*: Your suggestion is that advances should be made by banks at least for a period of 2 years during which period you think the concern would be able to meet its expenses and make sufficient profits to enable it to liquidate the loan which it has taken from the bank?—I should think so, speaking generally.

5808. That is a very pious wish, but I do not think that it will ever be possible in actual practice to do so?—It all depends on the nature of the business the concern does.

5809. *Mr. Jamal Mohammad*: During the period of two years you also anticipate that the concern would increase its working capital by the floatation of debentures and stocks and with the new capital thus raised you will also be in a position to repay your original loan from the bank. Is that so?—That could also be done.

5810. *Seth Haji Abdoola Haroon*: On what percentage of the block will a bank advance loans to such concerns as you contemplate?—I shall be satisfied if a bank will advance up to 60 or 70 per cent. of the total value of the block of the concern.

5811. Supposing such an industrial concern failed, do you mean to think that a bank will ever be able to regain its loan?—I do not contemplate that such a thing will happen. Of course, your point also ought to be taken into consideration, but I am talking only of industrial concerns which are actually thriving.

5812. I am putting this question to you because there was an actual case which happened in Karachi where a glass factory with a capital of Rs. 3 lakhs found it unable even to return a loan of Rs. 10,000 which it had taken from a bank?—We can only legislate for the benefit of ordinary fair business concerns. We cannot legislate for extreme cases of the kind you contemplate.

5813. *Mr. Khaitan*: Would I be correct in understanding you to mean that a bank should come into existence which would take note of the block and stocks which are required for the carrying of a concern, separately?—Yes.

5814. As regards the block you intend that there should be some bank which would value the block properly and advance such an amount of money or such a percentage of the total outlay as may be considered safe for the bank to invest in that concern taking other circumstances into consideration such as the possibilities of selling of stocks and other assets of the concern. Is that your idea?—Yes, that should be done.

5815. In that case you cannot prescribe any particular percentage of the original capital outlay which the bank can advance?—Yes, each case will have to be considered on its merits.

5816. As regards stocks, the present system under which advances are given for 3 or 6 months is also, according to you, not quite a satisfactory state of affairs, and even here you agree that advances will again depend upon the merits of individual cases. The bank will have to ascertain the saleability of the raw materials, etc., and will also have to keep a certain margin for its safety. Is that your position?—That is so.

5817. *Sir Hugh Cocke*: You told us just now that a bank should be in a position to advance up to 60 or 70 per cent. of the block value of an industrial concern and you also said that the concern would be able to liquidate its loan within a period of 2 years. Now, I put it to you that you are very optimistic indeed. Take the case of a concern which has a block capital of Rs. 20 lakhs. Supposing it required 50 per cent. of its block for working expenses, do you anticipate for a moment that a concern would be able to liquidate a loan of Rs. 10 lakhs thus obtained from a bank, within a period of 2 years?—Much depends on the nature of the articles manufactured by the concern.

5818. Would you expect that loan to be renewed at the end of two years?—Some little balance may possibly be left over, but I think that the major portion of the loan would be liquidated.

5819. Can you give the nature of any concern which will be able to liquidate its debts within a period of two years?—I have not set my mind on any particular industry or concern, but that is my general impression.

5820. *Mr. Ramdas Pantulu*: You do not contemplate that a bank should advance all the 60 or 70 per cent. of the value of the block. You only refer to the maximum and it is up to the bank to advance as much as it can possibly do in relation to the amount of loan asked for by the concern. Is that not so?—That is the position. I do not contemplate a position where a concern which has sunk Rs. 100 lakhs in its business will go a begging for Rs. 70 lakhs.

5821. *Chairman*: Am I to understand that your point is that in spite of the fact that there is ample and proper security, in very many cases banks do not advance as they ought to?—That is the position.

5822. You have devoted the major part of your answer to the first question to the requirements of agriculture and co-operative banks and societies, as you have classified agriculture as a basic industry. Agriculture and co-operation have already been dealt with by the Provincial Banking Committees and this Committee will in due course give its earnest consideration to the facts and recommendations in regard to these two subjects contained in the Provincial Committees' Reports. There are, however, one or two questions relating to cash credit facilities of co-operative banks which I should like to put to you. You refer to the withdrawal by the Imperial Bank of India of the existing cash credit facilities on the backing of co-operative paper and draw pointed attention to the fact that the security of such agricultural paper is unimpeachable. There is another aspect of the matter which the Madras Committee have dealt with in paragraph 356 of their report. It is that in times of crisis when the co-operative banks require this cash credit from the Imperial Bank, the latter may also be obliged to protect its own cash reserves, being itself a commercial bank, with the result that it might find it necessary to cancel its cash credit. Such a situation would be undesirable and unsafe. It is therefore necessary for the co-operative banks to build up their own fluid resources. Have you anything to say in regard to this aspect of the matter?—Yes, I have got a few observations to make in regard to this matter. It is contemplated that in a period of crisis, not only the co-operative banks but also the Imperial Bank itself will have to safeguard its resources. The Imperial Bank then may not be in a position to continue the overdrafts granted to co-operative institutions. When I

mentioned that the facilities must be made more stable in the Imperial Bank, I was taking into consideration the fact that the Imperial Bank was not only a commercial bank but it was functioning as a State Bank under existing conditions. All the surplus revenue of Government being kept with the Imperial Bank, I contemplated that Government should through the Imperial Bank continue the credit accommodation given to the co-operative institutions. I think it is a matter well-known that recently Government went to help the Burma Provincial Co-operative Bank to the tune of no less than Rs. 30 lakhs. Some years ago difficulties arose in the case of the Central Provinces Provincial Co-operative Bank as well, and Government stepped in and provided sufficient credit for that institution to tide over its difficulties and continue work.

5823. *Mr. Manu Subedar*: The Burma case which you referred to proves the need for all the more caution. As you yourself admit, the Government had to write-off a sum of no less than Rs. 35 lakhs?—I am not for one moment oblivious of the need for caution. I admit they should themselves provide for funds for fluid resources in cases of emergency.

5824. You argued that the importance of financing agriculture is so great that Government themselves have recognised it and have made good deficiencies in the case of two institutions when a crisis occurred and you said that the Imperial Bank should not be so conservative as it is to-day. I put it to you—though I am personally not against your suggestion—is it not a case for the Imperial Bank to exercise more caution in regard to this matter?—I do not for one moment urge that there is no need for caution. But what I am trying to say is that it is not quite advisable for the Imperial Bank to withdraw all the existing credit facilities which they offer to the Co-operative banks within so short a period as 5 years

5825. *Mr. Ramdas Pantulu*: So far as the rate of interest on the loans which you make is concerned, I take it that it is a fixed rate unlike the rates of the Imperial or the other joint stock banks?—That is so.

5826. And you keep to your fixed rate in spite of other seasonal fluctuations in the money market and considerations of that sort. Even though the money market is very tight, you do not increase your rate of interest. Is that so?—That is exactly the position.

5827. And for the help that you are rendering for the agriculturist by not raising your interest rates even in times of crisis, you expect Government should also do something through the Imperial Bank for you in times of crisis in return in consideration of your service to the agriculturist. Is that the position?—That is our view.

5828. *Mr. Devadhar*: In the case of Burma and Central Provinces to which you referred, were they on the verge of grief because for want of prudence and lack of business talents on the part of the management or was it because that there was something inherently wrong with the basic principles of the co-operative movement?—I would not say that there was anything inherently wrong, but all I would say is that possibly with better management those banks would have probably tided over their difficulties.

5829. *Chairman*: You state that the export trade in cotton and groundnut is mainly in the hands of middlemen and mercantile houses controlled by large European capitalists having their ramifications throughout the

country and that these merchants fix the prices far in advance before the harvest and move them for shipping to the ports in the various provinces. This subject has also been fully dealt with by the Madras Committee in its report, but there is one point on which I should like to make the position clear. Although in the finance of the cotton trade there are three distinct marketing methods employed, one of which provides for advances to the cultivator before the harvest, in the case of the ground-nut, the committee report that the large European exporting firms, who have their local agencies all over the country and all the principal groundnut centres in the harvest season buy for cash locally and do not ordinarily give advances for growing the groundnut. Have you any facts and figures in your possession to contradict this general statement of the committee?—The general statement made by the Madras Banking Enquiry committee with regard to financing of groundnut is on the whole correct. There are, however, instances where cash advances are paid at the rate at which the crop is to be supplied to mercantile houses quite ahead of the gathering of the produce. When referring to this fact I have particularly in view two districts, namely, Salem and Vizianagaram. With regard to Salem advances are paid to the people who grow groundnut. And with regard to Vizianagaram I have got information from one of the directors of the bank and advances are paid prior to the growing of the crops and prices fixed ahead.

5830. *Sir Purshotamdas Thakurdas*: What security do the mercantile houses get for these advances?—They will take collateral agreement.

5831. What do they do in case of the produce failing?—The mercantile houses keep a sufficient margin when giving advances.

5832. How much margin do they keep?—I cannot give you the definite figures.

5833. Will you kindly make enquiries and let us know?—Yes.

5834. You will also make enquiries whether there are any bad debts and approximate amount of advances they get?—Yes.

5835. *Mr. Manu Subedar*: May I also suggest to you that you will kindly make enquiries whether they get advances every year from the same person or different persons?—Yes.

Mr. Ramdas Pantulu: It is generally from the same persons.

5836. *Mr. Lamond*: We have been told by several witnesses here that exporting firms make such advances. The Manager of the Ralli Brothers in Bombay stated that they did not make such advances. It is difficult to believe that they do so as by the time exports are made, there may be a change in the Home market. The point is very important and we shall be glad to have the names of the firms who are making such advances?—Yes, I will also get the names of firms.

5837. *Mr. Ramdas Pantulu*: Mr. Subbarao of Vizianagaram, one of the directors of the M. C. U. B. is connected with the business of groundnuts. He also said that the information was accurate. He is a man of some experience and if you will get the information from him, it will be better?—I am getting the information from him.

5838. *Dr. Hyder*: Will you kindly get the information both from Salem and Vizianagaram?—Yes.

5839. *Chairman*: When you mention that there has been a curtailment of facilities, you naturally refer to the Imperial Bank. Can you tell us whether this curtailment has any effect?—No, as I have already mentioned in my memorandum, they are trying to get advances from the Imperial Bank even at 7 to 8 per cent.

5840. Therefore, the curtailment has some effect?—No, it has effect in the increase of rate to the primary societies.

5841. When was this curtailment started?—Only last year.

5842. During these twelve months there has been no effect?—No.

5843. *Mr. Ramdas Pantulu*: Were they holding any Government paper?—Yes up to the value of sixty three lakhs.

5844. *Chairman*: During these twelve months, it has not affected the primary societies' borrower?—No.

5845. *Mr. Ramdas Pantulu*: How much more Government paper is there?—I do not recollect the figure.

5846. I think it is about 50 lakhs. And 25 per cent. of that amount is 13 lakhs, which is absorbed?—Yes.

5847. *Chairman*: You say that the recent decision of the Imperial Bank of India not to accept co-operative paper as collateral securities for the overdrafts granted has greatly embarrassed the co-operative movement in regard to financing agricultural marketing. From your memorandum I understand that cash credits are given for two purposes (1) for utilization as fluid resources and (2) for short term loans repayable within a year. I gather that the withdrawal of the cash credit facilities by the Imperial Bank against the co-operative banks paper refers only to the facilities utilised by the co-operative banks for the purposes of their fluid resources. Have you found any difficulty in obtaining short term loans from the Imperial Bank for financing agricultural marketing on the security of promissory notes of the Central Banks and the societies?—Up till now no occasion has arisen for us to raise any short term loans on the strength of co-operative paper, because the Imperial Bank has been allowing overdraft.

5848. Have you yet approached them or not?—There was no necessity up to now for asking for short term loans.

5849. *Mr. Ramdas Pantulu*: Subsequent to the curtailment of facilities there is a circular issued by the Imperial Bank about the short term loans. Am I correct in this?—Yes.

5850. It is very recently?—Yes, about a week or two.

5851. Two or three banks in the Northern Circars were giving short term loans for helping agricultural marketing. I think those are the banks in Rajamundry, Guntur, etc., but they have stopped these loans since the curtailment of facilities by the Imperial Bank?—Yes, they are now not giving to a large extent.

5852. *Chairman*: My point is this. Have you found any difficulty in obtaining short term loans from the Imperial Bank on the security of promissory notes?—There is no such arrangement. We ask loans for financing agricultural marketing on the notes of primary societies and Central Banks.

5853. *Mr. Manu Subedar*: Has not the drain which you just referred to spoiled your balance sheet position? Has it forced you to withdraw your loans from other banks?—We cannot withdraw them, because they were fixed for a definite period.

5854. Has it forced you to sell the Government paper?—Yes. In October of 1929 we sold Government paper of the value of Rs. 15 lakhs.

5855. *Mr. Lamond*: Did you sell those securities because of the withdrawal of the facilities?—It was soon after the Townsend committee's report.

5856. Was it on account of the withdrawal of facilities?—We had to provide funds.

5857. *Mr. Manu Subedar*: Did you feel any danger on account of the withdrawal of these facilities?—No.

5858. *Mr. Ramdas Pantulu*: Did not the Registrar actually send you a circular asking you to provide yourself with funds for fluid resources?—Yes.

5859. Then are you right in saying that there was no danger?—No.

5860. *Chairman*: In your memorandum you refer to the improvement of the present state of things by extending the facilities provided by the bills through the agency of the co-operative movement. The Madras committee has considered the possibilities of linking the co-operative societies more with other banks by the development of a realizable form of agricultural paper. They have come to the conclusion in paragraph 147 of the report that while it is easy to develop such paper in respect of loans granted on produce, which has been gathered and put into godowns, they think it is difficult to create agricultural paper which would be readily accepted as security for loans outside the co-operative movement in respect of loans for growing crops. Would you kindly favour the committee with your views as to how the difficulty in the latter case can be surmounted?—At present the co-operative paper which is given security for the advance made by the bank is an on-demand promissory note. It does not clearly indicate whether the promissory note has been executed for the purpose of holding up the produce in the godowns of certain banks or not. The creation of special co-operative paper which will be on tangible goods should be able to command sufficient confidence for its being discounted and re-discounted.

5861. I quite realise that such a paper may be useful for the purpose. The Madras Banking Committee have expressed an opinion that it is difficult to create agricultural paper for growing crops. Is there any difficulty or not? If there is no difficulty, you may say so?—I may say that the difficulty is slightly exaggerated. What we contemplate now is this. The promissory note of the primary societies will be executed only for growing crops. That is what we are contemplating.

5862. I quite realise that class of paper will be useful. I want to know whether there are any practical difficulties regarding its acceptability outside your Movement?—Yes, there are some difficulties and legislation is required for the purpose.

5863. What are the difficultjes?—Under the existing Co-operative law there is no special provision made for the produce of consumable commodities. Once a special provision is made, co-operative paper can be created.

5864. Apart from the legal difficulty, is there any other difficulty?—Yes, as already mentioned, there is no tangible property at the time of entering into a contract.

5865. Will not the person willing to subscribe to that paper use the money borrowed for any other purpose?—No.

5866. Is that principle observed and realised?—It has got to be insisted upon. Money borrowed for a certain purpose must be used for that purpose.

5867. *Dr. Hyder*: You have been in this movement for a long time and you say many times that principle is departed from. Do you anticipate there will be any difficulty in ensuring that that principle is really followed?—It has already been begun to be observed.

5868. *Chairman*: With success?—With certain amount of success.

3869. Regarding the legal aspect Mr. Hood put this question in the Madras Banking Enquiry committee and you said that there is a Bill being drafted on the subject. May I know what happened about this Bill?—That Bill has been suspended.

5870. Can you give us some idea as to why it was suspended?—It has been suspended for some reason or other. And it will be brought forward in the next session of the local Council.

5871. *Mr. Ramdas Pantulu*: The Bill has been drafted; the Registrar wanted to have a separate Bill for the land mortgage banks. I have addressed a letter to the Registrar stating that they must make a specific provision for the charge on the crop for ordinary co-operative loans advanced to raise the crop. I have received a reply which I shall show to the committee tomorrow.

Chairman: If you get the copy of the Bill you will be able to give us further information on the subject.

Mr. Ramdas Pantulu: Yes.

5872. *Mr. Manu Subedar*: You have stated that loans are given by the primary societies and sometimes it happens that the interest is also late in coming in. Do you mean to say that the co-operative paper will be taken as an accommodation paper?—My idea is that we should have a different sort of paper.

5873. But the promissory notes will represent merely liquid assets or assets which could be realised. Instalments are coming in very late; they are not coming in regularly. So, would you not say that it is accommodation loan?—I do not know that. You may call it so.

5874. Anyhow do you think there will be some improvement in future?—We are already devoting our attention to this question. There will be two different promissory notes. One will be for short term loan and the other for long term loan.

5875. In your memorandum you say, "It is only then that the benefits of banking arrangements can flow direct to the producers instead of being limited to the already well-to-do and influential middlemen and traders, most of whom are of European origin." Your view is that the handling of the produce is passing and has very largely passed into the hands of the large European exporting firms and that these European merchants are assisted by cash credits on a basis on which Indian merchants cannot expect. The small merchants are therefore handicapped and in their turn

the handicap reaches down to the producer. Your object is that this handicap should be removed?—Yes. My idea is to knock out the large number of middlemen between the producer and the market, so that the profits may ultimately go to the grower. As a matter of fact my programme envisages a point where the producer will get a better price for his produce on account of the elimination of the large number of middlemen and there will be institutions created to finance certain crops in the hands of the producer or the merchant. The Co-operative Movement will then take the place of the middleman.

5876. But the European exporting firms can always depend on getting easier finance?—My idea is that on a large scale the Co-operative Movement will be able to stand up on its own legs in spite of the easier finance procured by the European firms.

5877. *Mr. Devadhar*: Do you not expect that by the time the co-operative organisations come to finance all these industries, we might get even Indian firms to deal with foreign countries?—Quite likely.

5878. *Chairman*: You suggest that a separate organisation should be brought into existence mainly for financing producers and industrial concerns on the basis of long term credit. Do you advocate the establishment of one institution for providing agricultural as well as industrial finance? In the case of the agriculturist, has not the difficulty been solved by the establishment of land mortgage banks?—The land mortgage banks are there to advance money to the landholder.

5879. Do you think that the same institution will provide long-term credit both for agriculture and industry?—I look forward to separate institutions for dealing with agriculture and industry.

5880. *Mr. Ramdas Pantulu*: With regard to these land mortgage banks, you of course know that they are on a Co-operative basis. You also know that a number of restrictions are placed on their powers of lending; only recently the Madras Registrar has raised the limit to Rs. 5,000 for accommodation; and I find from the reports of the several Provincial Committees that they have recommended that large sums should not be advanced through the co-operative land mortgage banks. Do you not think that there is a very large class of landholders outside the co-operative Movement who want larger accommodation? Is there any need for commercial land mortgage banks besides the co-operative mortgage banks?—I do not think at present any commercial banks advance moneys.

5881. Do you think that with the present restrictions it will be possible to solve the problem of long-term advances to those people?—Not with the existing limitations; though I know that in the Madras Presidency there has been a persistent demand for these facilities. I remember the late Mr. G. Venkatranga Rao once told me that there was a primary need for land mortgage banks which will go to the help of the higher middle classes.

5882. *Chairman*: Is there any difficulty in the case of the large landholders starting a co-operative mortgage bank of their own which will be free from these limitations in regard to loans?—The necessity to help these landholders is very keenly felt, but the question whether it is possible to form a bank on co-operative banks is one which requires to be carefully examined.

5883. What is the feeling among the landholders themselves about it?—They do want an institution which will come to their relief.

5884. Do they want that institution to be run on co-operative basis? —That aspect has not been fully considered yet.

5885. *Mr. Devadhar*: Do you know the dictum of Wolfe that co-operation is a necessity for the poor and not for the gentleman?—Yes, I know that dictum; he refers to the small farmer; he does not contemplate these big landholders.

5886. *Mr. Ramdas Pantulu*: Do you think that most of the capital required should be found by shares?—It may be by shares or it may be by debentures.

5887. But large capital must be forthcoming?—Yes.

5888. And do you think that most of the co-operative banks at present need more funds?—Yes.

Chairman: I think the Bihar Committee have in their report recommended a shareholders' bank; they are not in favour of a bank on co-operative basis.

5889. You state that the loss sustained by the Provincial Bank owing to depreciation in the value of its holding in Government securities is Rs. 3,07,410 as on 31st March 1930. Does this loss represent the difference between the book value and the market value of the securities on that day?—Yes.

5890. Was the book value written up at any time when there was any appreciation in the value of securities? In view of your answer to the preceding question, your reply to this question is in the negative?—Yes.

5891. You refer in your memorandum to the absence of a rational system of co-operative finance. By this you mean that while the advances to the cultivators by the societies should be made between June and December and the recoveries effected after harvest from January to June, at present an unhealthy phenomenon is in evidence and the societies are dull in the agricultural season when they should be more active and speed up the collections towards the end of the co-operative year where there is little harvest. Would you kindly tell the Committee what is the remedy for this state of affairs?—In the Madras Presidency the cultivating season begins in July. It is then that all the organisations which are looking after the weal of the co-operative movement are engaged in collecting statistical information for the department. The co-operative year ends on 30th June and from the 1st of July begin the collection of statistics which have got to be supplied; the audit work of the department is going on and the unions which are the first body to take into consideration the demands of the agriculturist are fully taken up with the preparation of the various statements and reports which have got to be submitted to the department; and as much the needs of the poor agriculturist are given the go-by and during the agricultural season nothing is done for the mobilisation of capital to help the agriculturist.

5892. That is not a satisfactory state of things?—It is not.

5893. The Registrar in his report for 1928-29 has referred to that aspect of the case?—Yes.

Could you tell us what steps the Movement itself is taking to remedy this state of affairs?—The Movement is composed of so many entities all of which have to attend to the gathering of statistics that it is hardly possible for it to tackle this question.

5894. You must admit that that is a somewhat serious state of things?—Yes.

5895. It also indicates that the Co-operative Movement with the resources at its disposal is not functioning to the advantage of the agriculturist?—No.

5896. Therefore, even though the co-operative societies may be there, the agriculturist is forced to go to the money-lender to satisfy his immediate wants. Now this is for the Movement to remedy. I want to know whether the Movement has taken any action in this matter?—This unsatisfactory state of things is common to the whole of India; it is not confined to the Madras Presidency alone. It is due to a number of mistakes made in the actual application of co-operative finance. It started with the idea of relieving the ryot of his prior indebtedness. Nearly 70 or 80 per cent. of the total money raised has in the last 20 years been devoted towards the repayment of the agriculturist's prior indebtedness. And so far as I know this defect exists throughout India.

5897. The Madras Committee have tried, in their report, to analyse the debt with reference to the purpose for which it was used, and they say that only 32·7 per cent. is taken for repayment of the old debt?—All the data are incorrect; it is a mere declaration not based on actual facts.

When the Co-operative Movement started, nobody thought what form it should take; it was bodily taken from Germany and transplanted here without a proper study of the local needs or conditions. It was not nationalised.

5898. And you have taken 26 whole years to discover this?—Yes, we are glad we have discovered it even if it is after such a long time. The main difficulty is that the Movement is partly controlled by the Government and partly by the people; so that no change is possible without the consent of both the parties and therefore the Movement is like a house divided against itself. Another thing is that we should have devised a different system of unlimited liability for this country; it was safe enough for Germany and other European countries; but the conditions here are entirely different. And yet another difficulty is that Government has totally excluded loans against the security of gold ornaments.

5899. *Mr. Manu Subedar*: That was to prevent hoarding in this country?—All the same we have lost a very valuable security for our loans.

5900. *Chairman*: Has the poor agriculturist in your part of the country an appreciable amount of these gold ornaments?—We have two classes of people, those who can afford to give gold as security and those that are penniless.

5901. What is the proportion of those that have gold ornaments?—Seventy five per cent. of the agriculturists possess ornaments.

5902. *Mr. Manu Subedar*: Even such a valuable security the co-operative society will not accept?—No.

5903. So the poor agriculturist is driven to raise the money with the sowcar on this security?—Yes.

5904. *Chairman*: I am not referring to the upper middle class landholder; we are taking about the poor agriculturist. Has he got any gold ornaments?—He has.

Mr. Srinivasa Rao: The chief reason why during the cultivation season moneys are not advanced to the extent that the Co-operators have a reason to expect is that a large proportion of the societies are moribund. It will be seen from Mr. Pantulu's minute of dissent in the Townsend Committee that more than 50 per cent. of the rural societies are moribund—they transact no business. If a central bank in a district manages to show some profit, it is because there is a certain proportion of societies which are doing good business which covers all the black side of over 50 per cent. of the societies. If you refer to the description of the panchayats given in the Madras Committee's report on page 158, it says (of course it relates to urban societies), "In many cases the panchayatdars are too anxious to hold their posts to enquire so closely into the use and repayment of loans as to jeopardise their chance of re-election when their term of office comes to an end." This applies even in a greater measure to the panchayatdars of rural societies. Therefore it is the desire to cling to the office which stands in the way of the proper management, which in turn reacts on the working of the society itself and also a certain amount of honesty which is wanting in that part.

"The main direction in which the weaknesses of the directors of the central bank display themselves is in a tendency to give way to the demands of would-be borrowers and to grant loans for longer periods than is safe. These defects can only be removed by experience and training of staff and appointment of capable directors." It is perhaps true that capable directors are wanting in the way as was said in regard to urban societies. There are central banks in which the directors would rather cling to office than enforce a certain amount of discipline, without which there can be no proper management. Then the Chairman put a question as to what is being done to remedy this unsatisfactory state of affairs. Even before the Townsend Committee made a recommendation to that effect, the Madras Central Urban Bank introduced a scheme of inspection of central banks by the directors of the Madras Central Urban Bank. They were not only not satisfied with the inspections as conducted by the department, but the half-yearly reports sent up by the Registrar dealing with certain societies did not bring out the financial condition of the central banks in their proper light. Having introduced this inspection of central banks by the Madras Central Urban Bank, a number of reports were obtained and the state of the central banks as disclosed by these reports show that in fact there is not one agency which feels responsible for doing what is left undone by the agency lower down in the hierarchy of the co-operative machinery, but leaves things as they are, with the result that we find the Movement in its present hopeless condition. About 20 central banks were inspected and their results were brought to the notice of the managing agencies by the issue of reports. One of the main objects which the Madras Central Urban Bank had in mind in introducing the scheme was to depute directors to inspect central banks and to find out how exactly rural societies stood, which fact was not forthcoming in any published report concerning the central banks or, as a matter of fact, in the administration reports themselves except by way of general remarks. The directors of the Central Bank went into societies and unions, acquainted themselves

with the actual state of things and the result of that has been to persuade central banks to take up the resuscitation of rural societies for which the Madras Central Urban Bank has a few months back allotted Rs. 50,000 for granting subventions to central banks which would undertake this resuscitation business in right earnest. This had to be done, because the central banks themselves had not sufficient funds. We put the figure tentatively at Rs. 50,000, the applications already received come up to 60,000 and it is likely we shall have to sanction Rs. 75,000.

5905. This is revenue expenditure and not expenditure for loans?—Yes. In that way the process of central banks taking greater interest in the improvement of the societies financed by them is brought into operation and as a result of this it is expected that a real improvement will ensue. The work has been taken up in right earnest all over the Presidency just now. The Madras Central Urban Bank, in granting the subventions, have brought to the notice of the district authorities the various points which they ought to attend to and it is under the consideration of the executive committee of the Madras Central Urban Bank to prescribe periodical reports and to see that the work is properly transacted. When rural societies begin to function as a result of this scheme, such of them as are capable of doing business will be retained and the others dissolved and then I anticipate a state of things in which we shall not be faced with a situation which has been brought to notice and on which the Chairman has put this question.

5906. *Chairman*: You give a gloomy account of the existing operations of the co-operative Movement. I am not sure that that is a state of affairs which at the present moment is found in every province?—I do not urge this as my personal view, but that is the view of the Townsend Committee.

5907. The Townsend Committee reported about two years ago, so we need not be bound down by that Committee. All the same you give a gloomy account?—During the two years following the Townsend Committee's report nothing has very much happened to alter one's opinion in regard to the existing state of affairs.

5908. Could you tell me how long it will take for the Movement to reform itself in such a manner that it could render real service to the agriculturists?—If the whole thing happens in ten years, it would be a short period.

5909. Apparently what you say is borne out by the finding of the Royal Commission on Agriculture; they say "the only remedy for the unsatisfactory condition of the movement in some provinces is the patient and persistent education of the members of co-operative societies in the principles and meaning of co-operation". Would you subscribe to this statement —I subscribe to it in a qualified way. I was an assistant Registrar for ten years dealing with a number of rural societies and during the 7 years subsequent to my retirement, I have been actively engaged in co-operation work. My experience during all this period is that, while a lot of education is required, the rural ryot has so much of culture and sense of duty in him that he wants to discharge his debt. He does not want to evade payment, he wants to be as economic as possible, but it is owing to the mismanagement of societies and by the *panchayatdars* in a large number of cases, that they do no business and the requirements of members are not attended to. The *panchayatdars* themselves are deeply

indebted, the whole amount is devoured by them and other members do not receive attention.

5910. Are these *panchayatdars* members of the co-operative societies?—Yes.

5911. Therefore it is they who require education in the principles and meaning of co-operation?—Yes, we are moving in that direction.

5912. All this is very interesting to us and I must say, very disappointing to some of us. I hope we will see the silver lining before we conclude our deliberations, but my point is that if this is the state of affairs, then the question at issue really is one of internal reform and re-organisation and not one of better credit facilities?—I would not have dealt with all these things, but the accusation against us is that the requirement of the ryot is not met.

5913. The requirement of the ryot is not met at the present moment because of certain things within the Movement which require remedying. Your point is that not much advantage would be gained by the ryot by more funds being placed at the disposal of the movement?—This we are doing.

5914. I confess I do not wholly understand the conclusions you would like us to draw from the facts you have placed before us. You said that the result which has been brought out in your memorandum largely arises from the fact that 50 per cent. of the societies are moribund. Even if that were so, how could we be confronted with the position brought out by the figures you have given? I take it that the figures give the transactions of societies which are actually functioning, not those which have ceased to function. Even in the case of societies which are functioning, the position is that from May to October when the ryots' need for crop finance is at the maximum, the disbursements in 1928-29 amounted to 23 lakhs and the receipts to 39 lakhs, whereas in the period November to April when apparently his need for crop finance is not great, the disbursements amounted to 38 lakhs and the receipts to 25 lakhs. Would I be wrong in drawing the inference that when his need is at the maximum, because of want of elasticity in procedure, he does not get the money and therefore he goes to a money-lender and gets his money. When he gets his money, from the co-operative society he manages to repay the money-lender. That is the story which is depicted by these figures so far as I can make them out?—In a way the figures bear out that statement, but at the same time I might add that the fact that large amounts have been disbursed in that part of the year when agricultural operations are not carried on shows that the amounts are received for purposes different from those connected with agriculture. (Mr. Menon: The ryots pay assessment during the months of December to April. They somehow manage cultivation expenses and when they borrow from the society, they pay the revenue assessment).

5915. If that is so, some doubts occur in my mind about the success of your short-term crop loans, seeing that you do not advance money to an adequate extent even to members of co-operative societies for the purpose of their crops?—These figures are taken from the lendings of provincial banks. The real state of affairs will be depicted by the lendings between the district banks and the primary societies.

5916. If that is so, the conclusion which it is proposed to draw from the figures given in the memorandum should never have been drawn. Would not the inflow of money from the provincial to the central bank to

some extent correspond with the inflow of money from the central bank to the primary societies and from the primary societies to the borrowing bodies?—That is so. It is during the months of December to March that primary societies require advances not only for the purpose of paying the Government kist, but for holding their produce for better prices after the harvest. The harvest begins in January and goes on till the end of April or May.

5917. I take it that the loans are then given to the ryot, firstly to pay his land revenue and secondly to enable him to hold up his produce for certain periods. Those are the two main objects and if these figures are correct or any way an index of where the money goes, a small proportion actually goes to meet production expenses?—Not between the months of December and April.

5918. Therefore, would it be correct to assume that the money issued from May to October which is 23 lakhs in the year 1928-29 (out of a total sum of 61 lakhs) is the only money which is going to meet production expenses?—In 1928-29, 23 lakhs went in from the provincial bank towards advances to primary societies through the central banks, whereas under ordinary conditions one would expect that during the cultivation season the amount of money required would be very much larger.

5919. Do not these figure throw some doubt about the success of the system of crop loans on special agricultural paper which you had advocated a little while ago? The fact is that a larger proportion of the loans made by the provincial bank goes to meet expenditure other than production expenses?—To that extent you may draw that inference.

5920. *Mr. Ramdas Pantulu*: You say that "the dependence of co-operative banks on the Imperial Bank for financial aid partly arises from the absence of a rational system of co-operative finance". Last year your own bank borrowed large sums of money from the Imperial Bank at 8 per cent., the then Imperial Bank rate, and you lent it at 6 per cent.?—Yes.

5921. To get additional facilities you had to pledge some of your securities again?—Yes.

You seem to point out here that all this need not occur if you had a rational system of co-operative finance, because the busy season of commercial banks will partly coincide with the slack season of the co-operative banks and *vice versa*, and you want to illustrate that point from the transactions which the provincial bank had with the central banks?—I try to draw this inference from the figures available in our books. There is a demand for money from the provincial bank by the central banks during the busy season and when the bank rate is high. If there is proper co-ordination of finance, the demand from the central banks will tally with the busy season of the market to some extent and some repayments will be coming during the busy season which is not available at the present moment.

5922. If most of your constituents held up the produce which they did not want to sell, your theory of money coming in will not hold good?—It may not. I mean to say that financing for productive purposes generally coincides with the slack season of the money market.

5923. You do not mean to say that these figures actually represent the society's transactions?—They do not represent the transactions of the village societies.

5924. You supply central banks with very little finance, they finance themselves?—Yes, but to find this out, we have to take the figures of the central banks, primary societies, and our figures and then collate a statement.

5925. *Chairman*: These figures are a general indication of the operations of the primary societies in regard to their borrowings and you admitted that position. You have said that the primary agricultural credit societies are most dull in the agricultural season when they should be most active, and you take the statistics as an indication of that phenomenon?—Yes.

5926. As it is, you do not draw the inference from the statistics, but having made the statement, want to support it by the statement?—Yes, but I would like to modify the statement to this extent, that the statistics given here illustrate only a portion of the transaction in the co-operative Movement.

5927. I am quite prepared to admit that. That is why I put it to you whether you would consider these figures to be a reliable index in regard to the operations of the primary societies and I think you answered in the affirmative?—But I would like to modify that statement that since the amount of finance we supply to the co-operative Movement forms only a small proportion, unless you collate the figures of the primary societies and the central banks along with ours, a correct indication of the situation cannot be gauged.

5928. Apart from these difficulties, is there any other experience on which that definite statement is made?—This statement is based upon a general estimate of co-operative finance in the province and as exemplified from our transactions with the central banks with regard to the supply of funds to them.

5929. If these statistics were not there, would you be still making that statement from your general impressions?—I would be making that statement with a qualification, that the amount of funds that are being pumped into the co-operative movement generally does not tally with the busy or the slack season, that it varies, that during the busy season funds are required in larger amounts and we find it difficult to find funds and that if there were co-ordination, things would have been otherwise.

5930. I am not concerned with the agricultural season; at the moment I am confining myself to the precise fact how far the needs of the agriculturist are being met. That is more important from my point of view. You make the statement that the primary agricultural credit societies are most dull in the agricultural season, when they should be most active. That statement was made without reference to any statistics. Having made that statement you produce certain statistics to illustrate that statement. That is the reason why I asked you about the basis of that statement?—What I have to say in support of that statement is that the co-operative organisation, at a time when monies are required in very large quantities to finance the agriculturist, is employed mostly in looking after overhauling the societies, collecting statistics, etc., and as such it does not provide sufficient field for the flow of funds which otherwise would be much larger.

5931. For how many years have you been engaged in the cooperative Movement?—For the last 18 years.

5932. You must have had some personal knowledge in the matter?—I have not gone about in the field, my personal knowledge is based on

statistics supplied in the administration and other reports and the inferences I can draw from them.

5933. If so, this statement should not have been made in the form in which it is made?—It is based on the figures given and on the statistics we derive from the administration reports also.

5934. Are there other statistics?—In the administration reports there are figures for central and primary societies.

5935. Distributed by periods?—They do not distribute it by periods. Graphs are worked out with regard to demands and out-go of money with regard to the various periods in the year and for various years.

5936. *Chairman*: I have got here only two charts in the Report of the Registrar of Co-operative Societies of your province. It is quite true that the Registrar makes the statement—"these curves show what is reflected strongly in all of them that the work of co-operative societies is dominated not by harvests but by annual returns"—and that undoubtedly supports the statement which you have made, but unfortunately the graphs here show only the percentage of overdues to the demand for the month including arrears of previous months?—My point is that the Registrar presented to a meeting a series of graphs and on perusal I found them to support my statement.

5937. Therefore would I be correct in assuming that there are other statistics which led you to make the statement that the primary agricultural credit societies are most dull in the agricultural season, when they should be most active?—That is a fact.

5938. You say that your experience in Madras is that joint stock banks have not freely advanced to industries large or small. Is that a fact?—Yes.

5939. I take it that you refer to advances for working capital?—Yes.

5940. Seeing that commercial banks work on short term deposits, they can only grant advances for working capital if they are required for short term. Would you kindly tell the Committee whether the commercial banks in the province have not been helpful even to this extent?—As far as my knowledge goes, Indian joint stock banks do not finance industrial concerns at all even for short term requirements.

5941. Do you know the reason why they do not even advance the short term requirements?—I do not know that.

5942. Do you not think that it is possibly because that the bank is not satisfied with the security behind these short term advances?—I do not know whether it is so or whether these banks have made it a rule or policy not to finance short term requirements.

Lala Harkishen Lal: We will have to verify that statement.

5943. *Chairman*: Could you tell us whether you know any instance of an industrial concern approaching a joint stock bank for a short term loan and its having been refused?—I am at present unable to give specific instances.

5944. Will it be possible for you to send us a note on the subject giving specific instances and other facts that have come to your notice?—Yes. I shall do so.

5945. *Mr. Rushforth*: Has ever an industrial concern approached you for such an advance having been refused by a joint stock bank?—We are prohibited under the statute to make such advances.

5946. You may have been prohibited under the law, but that does not prohibit somebody from asking you for a loan of that character?—That is true. As a matter of fact we have been approached by some concerns and we had to tell them that we were precluded from making such advances.

5947. *Mr. Ramdas Pantulu*: I hope you are familiar the joint stock banks and their working generally?—Yes.

5948. Your experience of these joint stock banks is that they mostly invest their funds in granting loans on the joint promissory notes of rich people and so on?—Mostly, it is so.

5049. Your experience is that they are very cautious in regard to other forms of moneylending?—They are not only cautious but they are extremely conservative.

5950. As Secretary of the South India Chamber of Commerce you have also general knowledge of the industrial conditions of your province and you have made that statement in your memorandum as a result of your long experience and the general feeling evinced by the industrialists of your province. Is that not so?—Yes.

5951. *Chairman*: I did not know that you are also the Secretary of the Southern India Chamber of Commerce. I was wondering how you could make a positive statement of fact as it were, being only a central urban banker. You referred to these things out of your experience gained as Secretary of the Chamber of Commerce?—Yes.

5952. Very well then, I shall leave it at that and examine you later on in connection with this matter when you appear before us in the new capacity.

5953. You state that in your province three good industrial concerns, the Carnatic Paper Mills at Rajahmundry, the Sugar factory at Masulipatam and the Spinning and Weaving Mills at Bezwada, were starved and that they would have been successful if only they had enjoyed reasonable credit facilities. Have you had reliable information regarding the financial difficulties of these concerns and can you mention some facts and figures to show that with reasonable credit facilities they would have flourished?—With regard to the Carnatic Paper Mills I know it was started under proper aegis and advice with a big capital. The main portion of their capital was sunk in the block for securing the machinery, the buildings, plant and other things. They were also provided funds by the Madras Government under the State Aid to Industries Act and I presume on the strength of this even the Imperial Bank of India allowed them overdraft facilities for carying on their business. Later on, I understand, the Imperial Bank withdrew its facilities, and this was followed by the purchase of the concern by two financiers who have supplied funds to the concern for continuing its work. It is the want of sufficient working capital that induced the originators of the Company to part with the concern at least with the hope that the concern might survive in other hands.

5954. *Lal Harkishen Lal*: Who are these new financiers who purchased the concern. Are they Indians or Europeans?—They are Indians.

5955. *Chairman*: What was the orginal capital of the concern?—It was something like Rs. 15 or Rs. 20 lakhs, if I remember aright. I am not quite sure.

5956. *Mr. Lamond*: What was the concern sold for?—I am not aware of the definite amount for which the concern was sold for, but I believe it was something like Rs. 6 or 7 lakhs.

5957. *Chairman*: May I suggest to you that you do not know the actual facts of the case? Having been ignorant of the facts, it was hardly proper for you to have cited these as instances in support of your statement which you state definitely as your "experience". Apparently you are not aware of the full facts of the case. Another gentlemen representing the Andhra Chamber of Commerce referred to this particular case and I simply want to submit it to you that it is hardly appropriate for you to have referred to these as examples when you are not even in possession of actual facts?—I have put down in writing the facts which I have been able to gather.

5958. But unfortunately you are not quite sure of your facts. Do you mean to imply that any prudent banker would be justified in advancing to such a concern which started with such a big capital as you say, and got an annual loan of Rs. 6½ lakhs from the Government and which was also, over and above these, in possession of overdraft facilities from the Imperial Bank of India for a long time and which fell on evil days in spite of all these?—No answer.

5959. Put yourself in the position of a banker. Supposing your bank was not confined to doing agricultural business or rural credits, but you were free to do commercial banking as well, would you as a prudent banker advance any funds to a concern with the history as now brought out?—If there was a prospect of resuscitating the industry by careful nursing, I would not hesitate in recommending to my directors the feasibility of granting a loan.

5960. On what security would you do that?—If the Managing directors of that concern would be willing to give their personal security for that loan.

5961. If that is not forthcoming what will you do?—If no security is forthcoming, I will not be justified in making an advance.

5962. Do you know anything about the other two concerns to which you have referred to?—So far as the Bezwada Spinning and Weaving Mills are concerned, my information is that it was lack of working capital that was responsible for the failure of the concern. I have no facts and figures to support that statement.

5963. And what about the Sugar Factory at Masulipatam?—That is only a general statement which we have made on the basis of information supplied to us.

5964. So then it is not your own experience as you want to put it?—This statement is made on the basis of information supplied to us at the time of preparing this memorandum by a gentlemen who is a director of our Bank. He belongs to Masulipatam and he has intimate knowledge with regard to the working of these concerns.

Mr. Ramdas Pantulu: I might submit for the information of the Committee that Dr. Pattabhi Seetharamayya (who is now in jail) who is one of the directors of the Central Urban Bank, gave us that information

and as a matter of fact we wanted to put him in if he would agree as a witness on behalf of the Central Urban Bank, but unfortunately present circumstances have forced our hands in the matter.

5965. *Chairman*: You favour the establishment of industrial banks in each province. Would you kindly favour the Committee with your reasons for recommending provincial banks instead of an all-India bank with branches in provinces?—My reason for advocating separate banks for each province is that the local knowledge available to the directors of the bank would be brought to bear in the matter of settlement of advances to likely industrial concerns which might apply for accommodation from such industrial banks. That was one of the main reasons that impelled us to recommend separate institutions for each province. The question has also something to do with regard to the pace at which industrial development is going on in this country. Bombay is very much advanced in this direction and Madras is in the lowest rung of the ladder. Therefore conditions which are applicable and prevalent in one province may not be so in another and so the Industrial Bank, if there is only one central institution, will find itself unable to look at the proposition in regard to individual cases at its proper prospective.

5966. Have you thought out the details of your scheme for provincial industrial banks and would you give the Committee an idea of the capital required, whether the capital will be raised by shares or by debentures, whether any Government guarantee of interest is necessary, etc.?—I have thought about the scheme and I would suggest that these industrial banks may be started on the basis of a new institution which England has organised for agricultural credit. There the capital of that institution is subscribed to by the leading joint stock banks except one, even the Bank of England contributing to the capital of the concern. I would also suggest that the new Industrial bank which may be started in each province may make up their capital by contributions from the existing joint stock banks in each province and they should also be empowered to raise debentures, the interest being guaranteed by the Government of the province. I would also suggest that for some time to come the administrative charges of these banks would be borne by the Government as in the case of Agricultural Bank of England. I would also like a restriction to be placed on the dividends payable on share capital by these institutions. If need be, Government may also be requested to under-write debentures for a certain period till those debentures catch the investing public in the market.

5967. *Dr. Hyder*: Do you mean the debentures of industrial banks or the debentures of the industrial concerns that these banks are asked to finance?—To start with the industrial banks should be armed with powers to float their own debentures to enable them to advance monies to industrial concerns.

5968. *Chairman*: Do you contemplate that the State will have a large share in the management of such an industrial bank as you contemplate?—The Government might depute one or two of its men to act as directors of the industrial bank and they may also have a say in the management.

5969. Supposing the industrial bank wanted to advance some money to a particular industry and the Government acting on the advice of its industrial experts and the directors that it has on the board of the industrial bank thought otherwise, would you give Government powers of

veto in such cases?—I would not agree with that proposition. The Government's point of view as expressed through its directors on the board may be placed before the board of directors and I would leave it to the sense of the majority to deal with the question. What I mean to convey is that the views of the Government in regard to this matter would be fully discussed by the board and a hasty decision will not be arrived at. After discussing the *pros* and *cons* of the whole subject I would suggest that the majority decision should be final in all matters rather than give the power of veto to Government.

5970. *Mr. Manu Subedar*: If we appoint a Government representative as a director, will he not have the same sense of responsibility?—I think it will not be in the public interest to give the power of veto to the representative of Government.

5971. *Chairman*: But there is this difference. In the Co-operative Bank there is not much Government assistance. But in the industrial bank which you contemplate you want that Government should provide a large amount of capital?—Yes.

5972. That is part of the scheme?—Yes. My suggestion is that the directors in this bank should be hard-headed businessmen.

5973. If you say that the directors appointed by Government should be in proportion to the capital they invest, I do not desire to pursue the question?—I find that although Government have invested large sums of moneys in the Imperial Bank, the Bank has got only one Government director on their board.

5974. That may be, but he has no voting power?—My information is that there are other persons on the board nominated by Government. But I do not know whether they have got a power of voting or not.

5975. As it is, Government have power to nominate three persons on the board but Government have no power to interfere with their action ?—But I think Governor-General can interfere with their action.

5976. Whatever it is, if the Government will invest large sums of money in the industrial bank, they will not take the risk of losing that money without sufficient safeguards?—They have got other means of remedying the wrongs. Some sort of provision should be made to enable Government to withdraw their capital.

5977. *Mr. Manu Subedar*: Though the Government may guarantee the interest on debentures, the capital is more or less the security for the assets. Is it not?—Yes.

5978. Therefore Government share will not be much in proportion to that of the shareholders?—No.

5979. Therefore, you say the shareholders' representatives who should be hard-headed businessmen should have the power to decide to whom to lend money?—Yes.

5980. *Chairman*: You said that apart from the guarantee on debentures, Government should actually invest a large sum of money in the Bank. Is it not?—Yes.

5981. I will now read a provision in the Imperial Bank Act. It says: "That the Governor General in Council shall have power to issue instructions to the Bank in respect of any matter which, in his opinion, vitally

affects his financial policy or the safety of Government balances and that, in the event of the Bank disregarding such instructions, the Governor-General in Council may declare such agreement to be terminated." There is that provision in the Imperial Bank Act; therefore, would you provide a similar provision?—I have clearly stated that a provision may be made in the Articles of the Industrial bank to safeguard the funds of Government as far as possible. But I am against giving the power of veto to the representatives of Government on the Board.

5982. But is there any difference between the two? Supposing the directors appointed by Government are in the minority and if they say that the money invested by Government is in danger and if there is a provision in the constitution of that particular bank for powers corresponding to the provision under the Imperial Bank Act, would not the Government be justified in withdrawing their funds? If that is so, is there any difference between the power of veto and this provision which I have just mentioned?—If the power of veto is vested in the representatives of Government, at times it so happens that there are men who do not use this power on proper basis. There is very likelihood that the power of veto may be exercised to the detriment of the bank. It may be exercised for want of proper understanding of the propositions put forward by the bank. But if there are hard-headed businessmen who understand that a scheme put forward before them is a wild-cat scheme or not, there is no such danger. I do not see any purpose in vesting power of veto in the directors nominated by Government.

5983. But as I have mentioned, the Government still have power under the provision of withdrawing their funds?—Yes, but in that case it will happen that if any of the directors nominated by Government says that a certain scheme is a wild-cat scheme and if a proper case is made out, then the Government may withdraw their funds.

5984. There is a power of veto on the one hand and on the other there is a provision for the Government to withdraw its funds. About the second, the Government may withdraw the funds at any time?—But it is to be stated, in that case, that a particular scheme is a wild-cat scheme and therefore they withdraw the funds.

5985. Government will invest moneys in a concern which they may consider to be a safe investment. There is no question of a wild-cat scheme. But at a certain stage the bank invests in an industrial concern which in the opinion of the directors is not a safe investment, the matter will go before the Governor General and Government, after making enquiries, will have to decide whether they should withdraw their capital or not?—If such a contingency arises, the matter will go before the Legislative Assembly.

5986. No, you are misunderstanding the existing constitution. If there is any such question, the matter will go to the executive. Whether it is a democratic constitution or not, the executive Government will have to decide the question of withdrawal of Government funds. However I do not pursue the matter any further. When discussing the general industrial policy, you are speaking of the protective tariff. Suppose it is not possible under the constitution of Government to secure what in your opinion would be a desirable policy, would you still recommend that the industrial bank should be started?—Yes.

5987. Is that a subsidiary consideration?—I would not say 'subsidiary consideration'. But even in the absence of the protective tariff, I would advocate the establishment of the industrial bank in order to push forward our industries.

5988. *Mr. Ramdas Pantulu*: The Chairman put certain questions about the power of veto being vested in the Government representatives. I now ask you whether you would like to have an industrial bank or not, if the power of veto is there?—I would rather not have such a bank with Government aid. I would rather go to the market and collect funds for such a bank.

5989. In answer to Mr. Manu Subedar's question about the undesirability of vetoing power, you said something to the effect that there is a sort of suspicion in your mind that the representatives of Government under the present constitution may be unfriendly towards the development of the Indian industries. Is there any such suspicion in your mind?—There is a lurking suspicion in my mind.

5990. With regard to the land mortgage banks both in the Punjab and Bombay, Government have guaranteed debentures. They have guaranteed interest on them. And you know that the representatives of Government there are not vested with a power of veto?—Yes.

5991. *Dr. Hyder*: The case of the land mortgage bank is quite different from that of the industrial bank. On the land you can grow a number of crops; whereas you can manufacture any number of commodities in a particular industrial concern, say, manufacture of shoes, or soap etc.?—About the land I may submit that if there is not sufficient rain, no crops can be grown.

5992. Heavens are not going to be against the world every time. Will that happen every year.?—I know in the Madras Presidency there was not a single drop of rain for seven years in a certain region.

5993. So, you do not propose to draw any distinction between land and an industrial concern.?—No. I only said in answer to the question of Mr. Ramdas Pantulu that in the case of the land mortgage bank Government have not asked for any power of veto.

5994. Why not?—I do not know the psychological reason.

5995. But there may be some reason?—Probably there is.

5996. *Mr. Manu Subedar*: From the point of view of a banker, so long as the security is worth so much in King's currency, whether it is soap, or tooth brush, or shoe, he will not mind?—No.

5997. So, you say that when the Government have not thought it necessary to ask for the power of veto in the case of land mortgage bank, there is no reason whatever why they should look upon the operations of the industrial bank with greater suspicion or hesitation?—No. I see no reason.

5998. *Chairman*: Do you not think there is a difference between the land mortgage bank and the industrial bank. In the case of industrial bank, according to your own statement, you want the major portion of capital to be subscribed by Government; on the top of that you want Government to guarantee the interest on debentures.?—I put it this way. A national Government interested in the country's industries will not mind these minor things.

5999. You yourself said that there are two or three directors in the Imperial Bank appointed by Government. There they are in the minority and their decision will be overridden by the majority of hard-headed businessmen.

6000. *Mr. Jamal Mahomed*: Dr. Hyder was asking you about the distinction between land and an industrial concern. Do you not think that in the case of the industrial bank, the factories will be as good securities as land?—Yes.

6001. *Mr. Khaitan*: Are you of opinion that the Government are very reluctant to encourage the development of industries and therefore you do not want to give this power?—Yes.

6002. *Mr. Devadhar*: You said in answer to the question of Mr. Khaitan that you do not want to give this power because you fear that power will not be properly applied. But supposing there is a national Government, would you be prepared to give this power?—No.

6003. *Chairman*: You advocate the formation of pools for the marketing of commercial crops on a co-operative basis. What has prevented the formation of such pools in the past?—The formation has to emanate from the growers of the produce and it can be supplemented by help from extraneous agencies. In the present state of education of the people it has not appealed to them that the formation of pools will help them in securing better prices for their produce. It is due to want of education and also to want of appreciation of the fact that pools would confer greater benefits on the producers.

6004. Therefore in your opinion until those defects are removed, there is not much practical chance of forming pools?—I do not mean to say that we should wait till every individual in the country has got the right kind of education.

6005. If in certain localities the people who are concerned in the pooling system are sufficiently educated, then obviously the co-operative movement should be in a position to start these pools?—We have to consider the fact that the producers of these crops are largely the cultivators of the soil who have not had sufficient education to realise the advantages of forming pools.

6006. If you start a pool and they do not take advantage of it, how are you going to teach them?—It is difficult to answer which should precede, the pool or the demand for it.

6007. *Mr. Manu Subedar*: If there is an initial loss?—There may be a loss; it has got to be shouldered.

6008. *Chairman*: By starting a pool will it be possible to attract these producers, who are according to you in a poor state of education to take advantage of the pool? We have studied the reports of the various provincial Committees and we find that none of them has advocated the pooling system. The Bombay Committee have specifically stated that pools do not appear to be practical. The Punjab Committee, on which one of our present colleagues was appointed, say that pools are at present impossible to work. The Assam Committee recommend the establishment of pools for the jute crop on the same lines as have proved successful in Bengal, and there we have heard that it has not been satisfactory. The Central Provinces Committee think that the agriculturist will not gain anything by the

formation of pools. These are the recommendations before us. Of course the Madras Committee are silent on the point. If in spite of all this evidence, you still think that pools can be run successfully, why has not the co-operative movement in your Presidency started so far a pool at least in one place?—The absence of pools is due to the fact that the co-operative Movement is under the leading strings of an official hierarchy and possibly the idea has not appealed to them.

6009. You have already said that the Movement in Madras is not under the strings of an official hierarchy?—I said that there was no power of veto.

6010. Has any proposal made to the Co-operative Movement been turned down by the Registrar?—It has not proceeded to the extent of any definite proposals going before the Registrar but an attempt is being made in the case of the ground-nut industry. It is still in an embryonic stage and I cannot give any definite information regarding it.

6011. *Mr. Devadhar*: You know that some kind of pooling is attempted at Hubli in the Bombay Presidency?—They have got a large number of loan and sale societies with regard to cotton.

6012. *Dr. Hyder*: One cocoanut is like another and there is no difficulty of grading in the case of the cocoanut industry on the Malabar coast, would you not therefore start a system of pooling?—You cannot mix up cocoanuts of different sizes, because they fetch different prices according to their size (*Laughter*).

6013. *Chairman*: Therefore, so far as the co-operative Movement in your Presidency is concerned, they have not thought of starting pools.

I find there are 63 loan and sale societies in your province which are described in paragraphs 346 to 349 of the Madras Committee's report. The slow progress of these societies is attributed by the Committee largely to the difficulty of making an expensive godown pay when it is used for storing crops only for a few months in the year. Could you tell the Committee whether it is not a real difficulty and how it can be got over? As regards the development of co-operative sale societies, I find this evidence recorded in the Madras Committee's report,—(*Mr. Krishna Menon*: "But the selling trade has developed to such an extent that it is more difficult now to sell than produce an article. The ordinary agriculturist has not got that experience, which the traders only have.") Now if that statement of the position is correct, will not that also go against the development of pools under the present conditions.?—The ordinary agriculturist has not got that experience; the traders only have it. Unless the agriculturist has that experience, there is no possibility of even the sales societies thriving.

6014. Further on I find the following questions and answers in the Madras Report: "I think you have stated in your memorandum that pools may be organised as in Canada? For what commodities in your opinion could such pools be established in Madras?—(Mr. Rangaswami) when I wrote that, I had in my mind pools for the marketing of groundnuts. In South Arcot and Salem districts there are large quantities of groundnuts produced at each season. If through the co-operative societies the produce of each taluk or two is gathered and sold, then a better price can be got for the producing ryot."

6015. Have you taken into account the fact that production is scattered in this country?—But there are areas in South Arcot and Salem where

groundnut is concentrated in definite regoins. You start small co-operative societies and gradullay it will grow big and be able to pool the produce of the whole area."

6016. So your idea is that a pool is a bigger organisation than a co-operative sales society?—Yes.

6017. My idea of the pool being an upper organisation than a sales society was, as a matter of fact, actually gathered from reading your own evidence before the Madras Committee. So you agree that until you can establish successfully your co-operative sales societies or in other words you have made the foundation secure, there is no use putting up the upper storey or the superstructure?—We accept that.

6018. *Mr. Ramdas Pantulu*: The idea of a pool is that you gather together the produce of a number of people in sufficient bulk to sell it at advantageous terms. It presupposes that the produce is of such a character that it can be mixed up?—It has to be graded.

6019. In order to encourage a sytem of pooling have you not got to take steps to induce the cultivators to produce a standard quality of articles, such as they do in the case of wheat in Canada, and so long as they raise the standard crop, there should be no difficulty. Therefore the co-operative movement ought to take steps to induce the agriculturist to raise standard crops which will permit of pools being formed?—Yes; the ground nut trade has made such an attempt.

6020. *Mr. Devadhar*: I should like to know for whose benefit this pooling system is primarily intended?—It is intended for the producer of the crop.

6021. Does the consumer or the buyer come in there?—Of course by grading the consumer is benefited because he knows what quality of goods he is purchasing; he is greatly helped in the purchase of his commodities.

6022. *Sir Purshotamdas Thakurdas*: Can you name any district or taluka or any area in which pooling has been tried in India?—In the Salem district things are being worked in the case of groundnuts.

6023. Is it on the lines of the co-operative sales societies?—I am not in a position to say whether it is on the basis of pooling or on the basis of sales societies; but efforts are being made to see that the producers get a better price for their commodities.

6024. Can you tell me anything about the cardamum industry round about Madura where auctions are conducted?—Formerly each producer was selling the stuff individually, but now I understand it is being done through a co-operative sales society.

6025. For how many years has this society been in existence?—For about 5 or six years

6026. Has this joint sale system there worked smoothly?—At least I have heard no complaints.

6027. The sales are satisfactory?—Yes, they get better prices.

6028. Is that likely to lead up to the formation of a pool?—Pools come in only where the production is large. Cardamum is confined to a small portion of the Madura District and I have no idea of the quantity produced.

6029. Regarding the question of grading of rice etc., there the man who grows rice can know the grade or quality of what he has grown?—The

question of grading comes in only in commercial products and not in the case of food products.

6030. *Chairman*: Have you anything to say regarding the non-paying character of godown societies?—I think all godowns are being built on rather an expensive style. You can have godowns made cheaper also, taking precautions against fire, etc. It is not necessary that the godowns should satisfy the specifications of the P. W. D.

6031. You think that is the only difficulty?—One of the factors that contribute to the cost of these godowns is that they have to conform to the P. W. D. specification.

6032. The point here, as I understand it, is that the godowns are used for storing crops only for a few months in the year. Is it your experience that these godowns in Madras are built on an expensive scale?—I do not believe individual sale societies need go in for expensive godowns. The produce may be kept in the house of one of these people and a small rent paid.

6033. Therefore your point is that these godowns need not have been there?—I do not say so, I say that it is not necessary to have a very costly godown such as is envisaged by the Madras Committee. They are probably under the impression that the godowns should be of certain standard materials and of certain specifications.

6034. With a view to encouraging the use of trade bills, you suggest a reduction of the stamp duty on usance bills. I would refer you to paragraph 298 of the Madras Committee's report in which the Committee recommend that the duty be reduced by half and be made the same for all usance bills. Do you agree with this recommendation?—I agree that, to start with, the stamp duty on usance bills should be reduced by 50 per cent.

6035. Are you aware that there has been a falling off in usance bills as people have learned to evade the duty by having recourse to devices, such as promissory notes with a verbal understanding regarding period of payment and postdating demand bills? Even if the stamp duty were reduced, would they not resort to such device unless the amount of duty is reduced to that leviable in respect of promissory notes?—I do not believe that if the stamp duty on usance bills is reduced, people will take recourse to such devices.

6036. You also suggest that the negotiation of bills drawn in the vernacular languages must be made far more easy than at present. Will you kindly tell us whether difficulties are now experienced in negotiating bills drawn in the vernaculars at all the banks? What is the practice generally followed in regard to such bills (1) by the Imperial Bank, (2) by the Indian Joint Stock Banks and (3) by the Exchange banks?—Wherever cheques are signed or endorsed in the vernacular and that happens to be the signature of an Indian lady, it is generally the practice of banks in Madras to ask the signature to be attested before a magistrate. There is a certain amount of difficulty in the matter and some obstacles are thrown in the way of easy negotiation of cheques either signed or endorsed in vernacular. In the case of hundis drawn in vernacular, one is expected to sign before an officer of the bank. These impediments have to be removed if bills are to become more popular in the country.

6037. *Dr. Hyder*: Must it be done in the presence of a magistrate or any respectable person?—Endorsements must be attested before a magistrate, that has been my experience.

6038. *Chairman*: If the lady behind the purdah signs her name in English, am I to understand that it would not be necessary to follow this particular procedure?—That is so.

6039. *Mr. Khaitan*: Would you kindly let me know whether there is any difference about this procedure between Madras and other provinces? In Calcutta it is the practice of some banks, where a cheque is drawn and signed in the vernacular, that the person having the current account with the bank has got to sign the whole cheque book in the presence of the manager and keep the blank cheques safe in his chest?—That is the practice in Madras also.

6040. *Lala Harkishen Lal*: In the Punjab we do not feel such difficulties. So long as the bank has the specimen signature of the drawer, the signatures in any vernacular are accepted.

Sir Purshotamdas Thakurdas: Surely you will find it difficult in the Punjab also if, for example, a person signed a cheque in the Telugu language.

Lala Harkishen Lal: We do not get any Telugu signatures.

Mr. Manu Subedar: How would it be about a hundi?—You will have no specimen signature in that case?—They get the advice.

Chairman: The Punjab Provincial Banking Committee's report says that the Punjab National Bank requires from a client habitually signing in the vernacular a printed undertaking that he will not hold the bank responsible for any fraud that may occur.

Lala Harkishen Lal: That makes no difference; they pay on the signature. Each time the document is produced, the man is not asked whether he sticks to the agreement. It is taken only once when the account is opened. I must say that in the Punjab English is not deep-rooted because we have been keeping our accounts in the court language, *i.e.*, Urdu, for a very long time.

6041. *Chairman*: You state that the fluctuations in the rates of interest charged in respect of bills of exchange are rather violent. Can you give us an idea of such fluctuations during the last year or two?—I refer here not to bills discounted by the Imperial Bank or the Exchange banks; the Imperial Bank charges a certain rate on an understanding with the client and the Exchange banks charge a minimum rate or something over the bank rate. But in the market there are other bill-brokers who discount bills and the interest charged by them fluctuates with the fluctuating rates of the Imperial Bank. The Imperial Bank rate fluctuates between 4 and 5 per cent. in the year and the fluctuation among the Indian hundi brokers depends largely upon the then prevailing rate of the Imperial Bank, so that the fluctuations are rather violent.

6042. I thought you were referring to bills of exchange?—I am referring to hundis.

6043. You say that the traditional privilege of the seller to fix the terms of money in which he must receive his price are denied to Indians. Am I right in assuming that you are referring to the fact that export bills are now drawn in sterling and you desire that the exporter should be able

to draw in rupees? If so, is there any restriction at present on the exporter drawing his bills in rupees?—Generally the transactions with regard to the export of produce depend upon the price quoted in sterling by the purchaser in the overseas market.

6044. I am talking of the currency in which the bill is to be drawn. The price is bound to depend on the world's market and will probably in any case be fixed in sterling?—The producer of a commercial commodity is not in a position to decide whether he can sell his produce favourably to himself, because the quotation for the purchase of the commodity obtainable in the export market is in foreign currency and he is not in a position to know whether he is getting a profit by the transaction or whether he is having a loss.

6045. This is really a market question and not a banking question. I think that even the Agricultural Commission recommended that there should be markets and in those markets arrangements should be made for publishing the price of particular articles. Are you referring to that aspect of the case?—(Mr. Menon) We send our goods to a country where there is a gold currency, but we only get silver at the rate of 10 annas for 16 annas. Our point is that if we sell in a country which has gold currency we expect to be paid in gold in India.

6046. Are you complaining of the fact that you will get payment in rupees?—If the goods are sold in the country which has a gold currency, we want to be paid in gold.

6047. What do you mean by referring to the traditional privilege of the seller being denied to the Indian?—If we sell copra to Marseilles and if that country has its currency in gold, we wish to be paid in gold. If we sell to Arab merchants they must give us gold. The Arabs used to bring gold coin to pay for our products.

6048. *Sir Purshotamdas Thakurdas*: You will have to wait for it?—I am not complaining about the time of payment.

6049. *Chairman*: You are referring to the former times. Suppose you sold 100 bags of a certain commodity, you have first to send the goods to, say, Marseilles, the buyer there pays you in gold coins and then you bring the gold coins to India?—Whenever they come here, they bring gold in their sailing vessels.

6050. *Mr. Manu Subedar*: Do I understand that it is a matter of surprise to you that in India both the import bills and export bills are in sterling, and according to you the bills ought to be in rupees also?—That is a subsidiary question.

6051. *Chairman*: You state that the audit and examination of bank accounts should be done by examiners appointed by an Association of Bankers in the country. Is it your suggestion that there should be such examiners in addition to the auditors appointed by the shareholders?—That is so.

6052. Considering the composition of such an Association, would not your proposal place the examiners under the influence of persons responsible for the management of banks whose accounts they would be appointed to audit?—That may be an objection which can be raised against any system of examiners, because they have to be under the control of somebody or other.

6053. Supposing they are placed under the control of the Reserve Bank when this Institute is established, would not that be a better arrangement?—Probably that may be.

6054. You are of opinion that private firms or individuals doing banking business and money-lenders should be licensed and that a disciplinary control should be maintained over their operations. Have you considered whether such a measure would lead to a shrinkage in the loanable capital if a large number of moneylenders are averse to doing business under such restrictions?—There is at present no sort of control with regard to private bankers and moneylenders. My idea in bringing them under disciplinary control by the grant of a license is that there may be some co-ordination with regard to the lending rate of loans to persons. Now there is so much divergence that the bank rate does not control the lending rate in the market at all. When the bank rate is 7 per cent., the market rate is somewhere between 12 to 24 per cent. Under a licensing system it may be possible to link up all private bankers to a Central Reserve institution whereby such divergence can be controlled and the Reserve or Central Bank may have sufficient control on the rates prevailing in the market.

6055. You have not fully answered the question. Supposing we accept your suggestion, and then the moneylenders refuse to lend money under those conditions, would not that lead to a shrinkage in the loanable capital?—I do not believe it will contribute to any such calamity, because there are persons whose main avocation in life is moneylending and they would be prepared to carry it on under any restrictions you may seek to impose upon them.

6056. The Madras Committee have recommended in paragraph 503 of their report a system of optional registration of indigenous bankers. Have you considered that recommendation and have you any observations to make on that recommendation? From what you have told us, you are in favour of compulsory registration and you do not believe that it would result in some of the money-lenders dropping their business with the result that there would be a shrinkage in the loanable capital?—On the other hand, it would contribute towards reducing the rates charged on loans when the moneylenders get out of the market.

6057. You do not believe it will have that adverse effect to which I have referred?—I do not think so.

6058. *Mr. Devadhar*: You know that co-operative institutions has compelled moneylenders to reduce their rates of interest?—In certain areas they have. I know for a fact that in the Anantapur district before the advent of co-operation the ordinary rate of interest ruling on small loans was 36 to 48 per cent., but after the advent of the co-operative Movement, the rate of interest charged on small loans has been reduced to 15 per cent. and in some cases to 12.

6059. It is much less than 50 per cent.—Yes.

6060. *Mr. Jadu Nath Roy*: If compulsory registration were resorted to, do you not think that the indigenous bankers would divert the money into other channels?—It would be in the interests of the country if cheaper capital were available for industrial concerns which are now starved for want of capital.

6061. Do not the moneylenders now lend on insufficient security?—We shall put a stop to all sorts of speculative bargaining.

6062. *Mr. Devadhar*: Instead of proposing to restrict the liberty of banks dealing in this business or of individuals, would it not be really advantageous to start co-operative institutions in order to enable people to get money at cheaper rates of interest?—In spite of the existence of co-operative institutions, private moneylending is going on and private bankers are flourishing.

6063. There may be difficulties in the way of people who want loans. If you remove these difficulties by a systematic, clever organisation, will not self-interest guide people to go to these co-operative institutions which lend at a much less rate of interest than 50 per cent.?—There will still be people going to private moneylenders.

6064. Can you not prevent that?—I have made my proposal in the interests of borrowers and my point is that there must be some control and some co-ordination between the prevailing money rate and the market rate.

6065. *Mr. Devadhar*: Your idea is that the operations of these moneylenders should be restricted to some extent by legislation in return for certain facilities?—Yes.

6066. Would you do that for the benefit of the poor borrower who goes to him for his finances?—Both in the interests of the borrower and in the interests of the private depositor who deposits his money with the indigenous moneylender, it should be done.

6067. *Chairman*: You fully admit the advantages of the fuller development of the co-operative Movement, but as things are at present, that stage of finality will not be reached ere long when the agriculturists need not go to moneylenders for their requirements. Until that stage is reached the agriculturists will have to go to the moneylenders and therefore in the interests of the agriculturists also you will impose certain restrictions on these moneylenders in return for certain privileges that you might be willing to offer him. Is that not your view?—That is so, with a view to enable the borrowers to have the benefit of a lower rate of interest at the hands of these moneylenders.

6068. *Mr. Devadhar*: Supposing the co-operative Movement came to a stand-still, do you anticipate that the rates of interest of these moneylenders would go up again?—I do not envisage such a situation.

6069. *Mr. Manu Subedar*: You said that it would be some time before the net-work of co-operative Movement would spread all over the country. I put it to you, as education grows, the ordinary cultivator who does not at present realise that he subscribed to the principle of unlimited liability, may at a later stage realising the actual position, not prefer to have the benefit of the co-operative system and may require some other machinery for the purpose of securing loans. For that purpose also the class of moneylenders who are meeting their needs would continue to exist and therefore it would be all the better if they were licensed. Is that not your view?—Yes.

6070. *Chairman*: You state that "the Joint Stock Companies Act is inadequate to control the operations of banking organisation". You have indicated what provisions should be made for the regulation of capital and reserves. Is that all that you would like to be regulated? If not, will you kindly tell us in what respects its provisions are found wanting? Have you in contemplation any further restriction?—At present we have none.

6071. You state that there must be an emergency machinery the verdict of which should enable the Central Reserve Bank to come to the rescue of a bank when there is a run. Will you kindly indicate the nature of the machinery you have in view and its *modus operandi*?—My idea in suggesting this emergency machinery is with a view to enable the Reserve Bank which I envisage would be working in full swing in the near future, to come to the help of banks in distress and help them by the provision of funds to help them out of distress in case of need.

6072. You recommend that the financial facilities that are at present allowed to the co-operative banks by the Imperial Bank and the additional facilities that should be given might be placed on a footing of statutory or contractual guarantee. From the point of view of practical banking do you think it is feasible to give a contractual guarantee regarding matters, such as limits of cash credit and concessional rates of interest on advances, regardless of the changes that may take place in the position of the money market from time to time and regardless also of the changes that may take place in the financial position of the institutions concerned?—My idea in putting this recommendation before you is this. Following the Australian Bank Act if there is sufficient provision in the Reserve Bank Bill or in the absence of a Reserve Bank, sufficient facilities are created in the Imperial Bank for a certain definite advance of capital to the co-operative Movement I will be satisfied. In regard to the other point whether the rate charged on accommodation given to the co-operative banks should fluctuate with the changing conditions of the money market and the bank rate that undergoes fluctuations during various periods, I would prefer to have a definite flat rate given to the co-operative Movement. The flat rate was given to the Movement until now but that avenue has been cut off. The Provincial Co-operative Bank in Madras was permitted to have two accounts with the Imperial Bank, No. 1 being operated upon on the strength of the co-operative pro-notes where a flat rate of 6½ per cent. was charged on the debit balances, and No. 2 account being operated upon on the advances made on the Government securities at the fluctuating rate of the Imperial Bank. Very recently the Imperial Bank communicated to us that the Provincial Bank should choose to operate either on one or the other of the two accounts, and when it found that the bank had been operating on the No. 2 account, it declined to permit the Provincial Bank to operate on No. 1 account, when the bank rate stood at 7 per cent. What I suggest to the Committee is that a certain definite amount of money must be advanced on the strength of co-operative paper so that the Provincial Bank may not suffer loss in the work of the co-operative Movement.

6073. *Mr. Devadhar*: Are you in favour of having this cash credit system to all Central Banks or would you restrict it to the Provincial Banks only?—My *personal* opinion in regard to this matter is that the cash credit facility should be concentrated in the Provincial Banks alone.

6074. *Mr. Manu Subedar*: In regard to the facilities which you want the Government or the Reserve Bank to provide for you on the security of your co-operative paper, the position very largely depends on how the Movement is considered and regarded by the outside public, by the Government and by the Central institutions from whom you ask for such facilities. Is that not so?—Yes.

6075. I will read to you an extract from the "Indian Finance" Banking supplement relating to the co-operative movement and I would request

you to tell me what you consider about the remarks offered therein and whether you agree with the same. Dealing with the question of personnel, it says—"Though they have moved away from the helpless position of olden days, we can hardly claim that the Movement is in the hands of experts who can go about the task with these qualities of judgment, dash and during which are indispensable in any business venture. The result is that the co-operative credit institutions are supposed to be incapable of bearing the strain of the more exacting tests of soundness applicable to ordinary business concerns". If they cannot bear the same test which is applied to ordinary business concerns, naturally the paper emanating from them would be liable to a certain amount of doubt. Is that not so?—I should think it is rather an exaggerated picture of the existing state of affairs.

6076. Would you say that there is little justification for making such a remark?—I would not say that there is absolutely no justification, but I might say that the position has been a little overdrawn.

6077. You think that it is possible that some portion of the co-operative paper may be looked upon as *dud* security but there will be still a substantial portion of it which will be quite sound. Is that your contention?—That is so.

6078. *Chairman*: How is the Imperial Bank to decide what portion of the paper is *dud* security and what portion is effective security? Will not that position operate as an impediment on the Imperial Bank against providing credit against that paper?—My answer to it is that these Co-operative securities are collected from over a wide area of the province from among 12,000 Societies. It is possible that there may be a very small percentage of *dud* securities but it must be remembered that the Imperial Bank advances money on the security of the assets of the Provincial Bank supported by those of central banks. And it is only as a last line of defence that the co-operative paper is also given.

6079. I thought you were referring to the pro-notes of the central and Provincial banks?—No, I refer only to the pro-notes of primary societies.

6080. *Mr. Manu Subedar*: Take the case of your own province. Supposing you want cash credit facilities up to Rs. 20 or Rs. 30 lakhs. Do you consider that the assets behind the Movement are certainly quite safe except for a very small percentage of the pro-notes of primary societies and that with the further development of the Movement in the province you do not envisage any such possibilities. Is that so?—Yes.

6081. Supposing your Provincial bank was relieved of its obligation to lock up its money in securities and they wanted to have re-discounting facilities on its co-operative paper for half its total value, say to the extent of Rs. 70 or 80 lakhs, then I put it to you that the whole of such paper would not be free from any doubt?—We will take care to see that we give only first class paper as security.

6082. How can you make that choice?—We will give only such paper which have been duly certified by the Registrar as proper.

6083. I find from your Report for 1928 that in regard to your capital repayments, 42 per cent. is in arrears and in regard to interest repayments 57 per cent. is in arrears. Where the arrears are so heavy, which is unknown to commercial banking, would you accept it to be sound from the

point of view of the party who gives you heavy re-discounting facilities?—There is no doubt a sufficient amount of force and meaning in that statement. In due course, we expect to have really first class paper.

6084. *Mr. Ramdas Pantulu*: You are told that a certain amount of co-operative paper of the village primary societies is not sound and a bank would not be quite safe in advancing money on that security. Will you draw Mr. Subedar's attention to the statement you have made in your memorandum with regard to the precautions taken in regard to your co-operative paper, wherein you say—"The Central Bank concerned should, in addition to the promissory note executed by it furnish collateral securities in the shape of promissory notes of unlimited liability credit societies in the case of district central banks, and promissory notes of district central banks in the case of the Provincial Co-operative bank". With regard to the cash credit, I suppose you are not allowed to exceed the owned capital of the central bank concerned?—That is so.

6085. And central banks have created nearly a reserve fund of nearly Rs. 22 lakhs?—Yes.

6086. And you have your own share capital of Rs. 7 lakhs and the Reserve fund of the Provincial Bank is Rs. 10 lakhs?—Yes.

6087. Therefore you have a sufficiently large amount of assets for the present cover and if you envisage a large expansion of the Movement, you expect your Reserve Fund will go up and your share capital will also be increased and these in themselves will certainly go a long way to cover these advances?—That is so.

6088. And it is in addition to all these, as a third line of defence you give the pro-notes as collateral security?—Yes.

6089. With regard to overdues, do you not think that most of the overdues in the movement relate to long term advances?—It is so.

6090. I shall now read to you what the Madras Committee have said in paragraph 355 of their Report. They say that the losses made by central banks from the rural credit societies whose pro-notes were thus pledged have been entirely negligible; with one or two rare exceptions of trivial sums no dues from unlimited liability credit societies have been written off. It must therefore be taken that these pro-notes are good security. That they are less readily realised in a crisis than trade bills or Government paper has not been disputed but they are probably more readily realisable now than they were a few years ago, for the proportion of short term loans is steadily increasing. Therefore the position is not that you have not got any tangible security or that your collateral is so bad as it is assumed to be?—You have correctly summed up the position.

6091. Would you agree with the statement that the assets of the central and Provincial Co-operative banks backed up with the pro-notes as collaterals, are so worthless as not to make it a business proposition?—I would not admit that statement.

6092. *Chairman*: Mr. Menon, you are a director of the Central Bank. Do you agree with the views expressed by your Secretary in regard to this matter?—I agree with the views expressed by the Secretary.

6093. Mr. Srinivasa Rao, you are a Vice-President of the Bank. Have you anything to say in regard to the statement made by your Secretary?—I support the statements made by the Secretary but I would like to make a few observations in this connection. I submit that one of the items in

the scope of this banking enquiry is stated to be the regulation of banking with the object of protecting depositors and thereby increasing the confidence in the banking system. I submit that proper audit arrangements are called for. There is a growing complaint all over the Madras Presidency, to which Mr. Ramdas Pantulu referred in his presidential address at the Co-operators' Conference held recently at Madura, that the audit reports do not furnish sufficient information in regard to the conditions of the societies. Under a proper system of audit, any reference to the statement that some portions of the co-operative paper may be valueless will entirely be removed. I would further submit that the present audit arrangements in vogue in Madras are not entirely satisfactory and the depositors are found wanting in confidence. The public are therefore entitled to get that confidence from Government on whom the statutory obligation of audit is thrown. In this connection I would draw the attention of this Committee to what the Maclagan Committee have said in paragraph 90 of their report with regard to proper auditing. They have dealt exhaustively on this subject, what audit means. what it should comprise of etc. It is the neglect of these provisions that, I submit, is responsible for the present state of affairs and this fact has been endorsed by the Calvert Committee of Burma who state that the present deplorable condition of the co-operative Movement in that province was due to lack of proper audit. If this Committee would therefore be pleased to go into this question and recommend proper safeguards with regard to the Co-operative Movement in the matter of audit, the confidence of the public in Co-operative banking will be better ensured. All my remarks pertain mainly with regard to the Co-operative Movement.

6094. *Chairman*: You said in answer to the question of Mr. Ramdas Pantulu that unless the system of audit is changed, it is not possible to arrive at a true appreciation of the position?—I should think so. At the same time I think that the assets of the Provincial Bank and the central banks put together would be on the whole sound enough to support the application of cash credits. The risk is very negligible as is observed by the Banking Enquiry Committee.

6095. But may I tell you that it is not possible to investigate the question of audit. I read out certain references from the report of the Madras Provincial Banking Enquiry Committee and when they do not suggest anything on this question, it is impossible for this Committee to go round and take over the work which that committee has already done. You said that this Committee should devise means and improve the audit. I would say that it was the work of the Provincial Banking Enquiry Committee?—May I respectfully draw your attention to the statement made in the report of the Provincial Banking Enquiry Committee which says at page 2 as follows: "Items (i), (ii), (iii) (*a*) and (*b*) were excluded from the purview of the Provincial Committees". There you will find that item (i) has been excluded from that Committee's purview.

6096. When you refer to the later portion of the paragraph, it will make the position somewhat doubtful, because the depositors of the co-operative banks are all agriculturists?—They are not. Only a small portion of the depositors are agriculturists.

6097. What about primary societies?—No, there is a small proportion of agriculturist depositors.

6098. *Mr. Manu Subedar*: I may point out to you that it is mentioned that most of the depositors are professors, pensioners, etc.

6099. I am trying to find out whether this question of audit was undertaken by the Madras Banking Enquiry Committee, because some Provincial Committees have dealt with the subject?—In Madras there was no necessity for them to make any observations.

6100. That makes me feel that they were satisfied with the present system of audit.

6101. *Mr. Ramdas Pantulu*: As a result of the recommendations of the Townsend Committee the Government of Madras have adopted certain forms and made some changes and the Madras Banking Enquiry Committee thought that the present arrangements of audit were good. (To the witness). Will you be satisfied if the audit is done on the present arrangements?—Yes.

6102. *Chairman*: You also recommend exemption to co-operative societies from payment of income-tax on earnings from investment in public securities or land mortgage debentures. What would be your answer to the criticism that it is no part of the business of co-operative societies to invest a great deal of their capital in interest bearing securites and that if they do so, they should like other investors be subjected to the deduction of income-tax from the return on such investments?—We take this stand with regard to the exemption of income-tax on the earnings of securities held by banks. It is based on a certain order issued by the Governor General in Council exempting the profits of the co-operative societies from taxation in their business of banking. Whether it be co-operative or joint stock banking it has to keep a certain portion of the working capital in the shape of Government securities. It has now been stated that for creating additional capital the co-operative banks have to offer Government securities. The income on the securities is a portion of the business profits of the co-operative bank. Therefore we want this exemption.

6103. If the case is covered under the notification you refer to, there is no point at all. But from the legal point of view it is not covered?—We have made a reference to the High Court and asked for a ruling.

6104. But you take your footing on the Government Order. Is it not? —Yes.

6105. As regards recruits for co-operative banks, you state that the necessary facilities for training in methods of banking and co-operation are still lacking. Will you kindly state what facilities are required?—The kind of training that is available for young men who want service in co-operative banks is not sufficient. The kind of training to the young men should be on lines that they would be able to take the control of the type of the bank like the central bank. What we want is that there should be a higher co-operative training college where instructions to students are given for attaaining to higher positions.

6106. I think you are referring to your own province?—Yes.

6107. You state that if co-operative banks are permitted to discount bills and advance moneys on documentary bills, the facilities for marketing

would undoubtedly be improved. Does this imply that at present co-operative banks are precluded from discounting bills or advancing money on documentary bills?—The securities that are accepted at present are under the bye-laws of the Co-operative Act. So to enable them to advance moneys on documentary bills, a bye-law shall have to be made.

6108. I will draw your attention to the answer you gave to the question put by the Madras Provincial Committee. The question was: "I take it that the business in discounting bills in provincial banks is somewhat easier business than lending money for cultivation expenses?" And your answer was: "The moment the society does that, all the attention of the members will be diverted to the dividend that they will get." If this answer is correct, would not the argument about allowing the provincial banks and central banks to do work outside the legitimate work of the co-operative movement fail?—What we propose is to advance moneys on documentary bills.

6109. But your answer is quite plain there in the report?—There is some confusion in the answer.

6110. You, therefore, say that there is a mistake?—Yes.

6111. *Mr. Ramdas Pantulu*: Are not the shareholders of the Provincial Bank mainly the Central Banks?—Yes, out of seven lakhs of shares only Rs. 18,000 are held by the individuals.

6112. *Mr. Devadhar*: When you talk about the exemption from income-tax, do you mean to say that the co-operative bank is not a profit making business?—I never said so. But the stand I have taken is on the notification of Government.

6113. *Chairman*: You state that you are in favour of a portion of the receipts from cash certificates and savings bank deposits being diverted to give facilities to commerce, industry and agriculture in this country. So far as your co-operative bank is concerned, do you think it would be able, with such additional funds, to finance agriculture to a larger extent than it has hitherto done?—Yes, Sir, it will enable the Provincial bank to put in more funds for the financing of agriculture in the province. It will certainly facilitate agricultural development.

6114. Immediately?—It may not be so sudden; but it is sure to develop agriculture.

6115. Have the co-operative banks so far fully utilised the funds at their disposal?—There may be seasonal surpluses and seasonal deficits.

6116. I find from the answers given by the representatives of your Bank before the Provincial Banking Committee that it is becoming more and more apparent that during certain seasons of the year large sums of capital get concentrated in the hands of the Provincial Bank and it is found that there is no profitable method of investment for this large capital, and the only source that is available is either to deposit it with the commercial banks or to purchase Government of India securities. I find another statement in your evidence there that it is not so much money that is required but a proper system of finance. I take it therefore that co-operative banks in your province are not immediately in need of more finance?—We ask for the investment of a portion of the funds in cash certificates and in the savings banks being diverted to finance agriculture on the parallel that is being observed in Germany at the present moment.

6117. I am not concerned with parallels elsewhere. Look at your Balance Sheet. (At this stage the latest balance sheet of the Bank was handed to the Chairman). This shows that you have taken deposits to the extent of 153 lakhs and you have issued loans something like 116 lakhs; therefore you are left with a margin of 37 lakhs and that position was reached even after you had to pay back something to the Imperial Bank?—We did pay back.

6118. They reduced your cash credits. Further, am I to understand that your overdraft from the Imperial Bank is the same as it was 12 years ago?—The actual overdraft varies from day to day.

6119. What was it on the 30th June 1930?—I have given the figure in the Balance Sheet.

6120. How does it compare with the figure as it stood on the same date in the previous year?—On the 30th June 1930 the amount of the overdraft was Rs. 7,30,400.

6121. What was it on the corresponding day a year ago?—Evidently in 1929 there was no overdraft on the 30th June.

6122. I put this question to you for the reason that a few days ago a gentleman who was representing an all-India Co-operative institution told us that by some action of the Imperial Bank the actual cash credits available to the Madras Provincial Bank had been reduced in the course of 12 months by about 45 lakhs?—That is not a correct statement of facts.

6123. If it is not, then I shall not pursue that aspect of the question. It has also been stated that owing to that action of the Imperial Bank, the profits of the Central Co-operative Bank of Madras have been reduced?—I do not think that statement is correct either. As a matter of fact there is no reduction. I may add that there is a misapprehension with regard to the overdraft. We are given a limit of credit with the Imperial Bank upto which we can draw. For instance on Government paper we are allowed 30 lakhs. By a single cheque on any day we can draw 30 lakhs. On the 30th June 1929 there was no amount owing to the Imperial Bank by us on our overdraft account, while on the 30th June 1930 the amount due to the Imperial Bank was Rs. 7,30,400.

6124. *Chairman*: Will you kindly give us some information regarding the rates of dividend declared during the last few years by your bank and some of the central co-operative banks?—Could you send us the figures?—The Provincial Bank has been declaring 9 per cent. for 15 years and the Central Co-operative bank has been able to declare a dividend of 9 per cent. But I will furnish to the Committee the figures as desired.

6125. I find from the latest available balance sheet, namely that for 30th June, 1930, of your Bank that 55½ lakhs of your capital has been invested in Government securities. I gather that there are certain standard rules prescribed by the Registrar for the fluid resources of co-operative banks. Would you kindly tell me with reference to those rules, how much fluid resources your Bank would be required to keep and whether the whole of the investment in Government securities is for that purpose?—Our holding in Government paper constitutes our own reserve fund which under the orders of the Registrar we have to maintain. We can fix it either as deposits with the Imperial Bank or in gilt-edged securities.

6126. What is the amount of the fluid resources that were available on the 30th June 1930? Have you got any calculations, I mean, under the rules of the Registrar?—(The witness undertook to supply figures later).

6127. I have seen it stated somewhere perhaps it was in the pamphlet given to me by my Colleague Mr. Ramdas Pantulu—that the position in Madras at the present day is that the Bank is refusing deposits because it cannot use those deposits within the Movement. Is that a correct statement of fact?—At certain periods we do refuse when we do not want money.

6128. Is it the general practice in most parts of the year?—Not in the recent past; we do not drive away people who come to deposit money with us.

6129. Are you taking all the deposits that are offered to you?—Yes; only when we do not need funds, we quote very low rates and the depositors go away.

6130. So in effect you are refusing deposits. If you offer people lower rates which are not acceptable to the depositors, it amounts to refusing deposits?—That is in cases when we find we have more money than we can invest. It is not a contingency that happens very frequently; it occurs very seldom.

6131. Now you are a practical banker. I put it to you; you cannot possibly live in that way, from hand to mouth and from day to day. You must prepare the estimate of the sum of money which you are likely to be called upon to produce, say, within the next 3 or 6 months?—We prepare the estimate but the actual needs sometimes exceed the budget.

6132. Have you been refusing deposits, say, in the last 6 months — No.

6133. In the six months before then?—No. We have not been refusing since July 1929.

6134. Could you supply us with a statement showing the deposits from July 1929 and how much you have refused on the ground that you had no requirement for more funds?—I can send you a statement with regard to the money deposited month by month; as regards the other point I can tell you now that since July 1929 we have not been refusing any deposits.

6135. *Mr. Manu Subedar*: Are you able to attract more deposits during the season?—Yes, we have been getting more money during the busy season.

6136. So your point is that you regulate the intake of deposits with reference to the demands on you from the central banks. Have you ever found it necessary to get money in other ways, because you could not get the required money from deposits?—Yes.

6137. From what other sources?—From other provincial banks in other provinces, such as Bombay, Punjab and Bihar and Orissa. We also get money on call deposits from the joint stock banks in the city.

6138. In this statement before us you do not show that you have taken any deposits from any provincial banks?—The total figure includes the money we take from the provincial bank; we do not analyse it. We have 4 lakhs from Bombay, another one lakh from the Central Provinces. At present we have 5 lakhs from other provinces.

6139. Now, you have made several statements in your memorandum. You say "in the case of commercial crops, in many instances, they are sold through forward contracts to foreign houses who advance capital even before the crop is up." Further on, you say, "The facilities existing in the case of foreign trade are those created by the Exchange Banks discounting bills drawn against goods that are shipped to foreign countries. The facilities for internal trade are very few". Now, I put it to you. Have you any idea where these Exchange banks get their deposits from?—Largely from the Indian public.

6140. And the facilities for internal trade are extremely meagre?—That is my opinion.

6141. The facilities for export trade, that is to say, for foreign bills?—They are considerable.

6142. The facilities go to large European mercantile houses?—Yes.

6143. Therefore the Indian internal trade is starved?—Yes.

6144. *Dr. Hyder*: You are a timber merchant and I believe you hold a license for extracting timber?—I hold no such license.

6145. Have you any idea of the amount of licensing fees other people have to pay?—That depends on the number of trees in each forest.

6146. How many months does it take you to cut down trees when you are working under a license?—More than 12 months.

6147. *Dr. Hyder*: How much more than twelve months?—During the dry season when the rain stops, the operations in the forest commence and the blocks are then kept ready for the next rainy season. 12 months must elapse before the cutting of the tree and rafting is done.

6148. Have you ever approached the Imperial Bank?—So far as I am concerned, the Imperial Bank has been very helpful. I am speaking about the other timber merchants.

6149. Your point comes to this, that Indian timber merchants do not get advance against timber until it is cut, rolled down, floated and rafted?—At present there is a crisis in the timber market in Malabar. Half a dozen timber merchants have failed, because credit has been suddenly stopped.

6150. We are here on the general question. Are Indians who are engaged in the timber trade handicapped in any way as regards finance?—If one timber merchant fails, the whole credit stops, that is the present state of the market. The nature of the business is very risky and they are very shy about lending.

6151. *Mr. Jadu Nath Roy*: You referred to co-operative societies enjoying certain facilities from Government, but said that indigenous bankers should be restricted by some sort of licensing?—I said that licensing may effect some reduction in the rate of interest and lead to co-ordination with the prevailing bank rate.

6152. Are not indigenous bankers entitled to facilities similar to those given to co-operative societies?—The principle of co-operation is that co-operative societies do not make any profit and so the concessions as regards freedom from stamp duty and registration charges are given to such institutions.

6153. *Mr. Devadhar*: To whom do the profits made by primary societies go?—They belong to the society as a whole.

6154. *Mr. Jadu Nath Roy*: You do not think that indigenous bankers are entitled to any concession even when they compete with co-operative societies?—I do not advocate any concession to them in the matter of stamp duty or registration charges.

6155. Income-tax?—I have not thought about it; I would rather not answer the question.

6156. *Mr. Jamal Mohamed*: When you say that with reference to the trade in hides and skins financing is done primarily by the producer who turns out the finished goods for the market, I presume you refer to the tanning industry?—Yes.

6157. Do you know whether in Madras this industry is being financed by banks?—To my recollection the tanner has to depend on his own finance for getting through his trade.

6158. Am I correct in saying that the industry is not being financed at the stage of being tanned, but only at the export stage?—Yes.

6159. You advocate industrial banks. Some witnesses have told us that their past experience in the case of industrial banks has not been very encouraging?—Past failures ought not to be a bar to future progress. We may fail a number of times, but succeed in the end.

6160. Can you give long-term loans based on short-term deposits?—No, we cannot.

6161. What is your remedy for that?—My remedy is that industrial banks must start with a large capital.

6162. You have at present no industrial banks, we are only talking of ordinary banks now giving short-term loans. You advocate long-term loans for industrial concerns. My answer to that is that the loans have to be short-term for the simple reason that deposits are short-term. What are your suggestions to overcome this difficulty?—It can be overcome by the starting of industrial banks which will enable long-term loans to be given to industrial concerns.

6163. You say that "Industrial banks will only venture to finance industries if they have a reasonable belief that the State will so regulate its tariff and monetary policies.....". What do you mean by tariff and monetary policies?—By 'tariff' you mean protection?—Yes. When I referred to monetary policy, I had in mind the question of the ratio.

6164. Fiscal, currency, and things of that sort?—Yes.

6165. In the same paragraph you say "so the success of industrial banks largely depends upon the industrial policy of the Government of India". If I suggest a little modification of the sentence: "so the success of industrial banks largely depends upon the industrial and currency policy of the Government of India", what would you say?—I am prepared to accept the amendment.

6166. *Mr. Devadhar*: In the course of your evidence you gave us a very dismal picture of the co-operative Movement, with regard to its origin and earlier development, stating that at the earlier stage financing was done in a haphazard manner without any principle?—I am sorry that I

created such an impression. No human being could have done better than the pioneers in this field have done.

6167. You mean to suggest that you made an over-statement?—It was a statement which was made out of my anxiety for the Movement to be put on a better basis.

6168. With regard to the system of short-term and long-term credit you probably know that the system is not common to all the provinces of India?—The question of short-term loans was recently considered very carefully in all parts of India.

6169. In your province it was started with the idea of having a long-term credit for ten years, and short-term credit prevails to a very small extent?—It was formerly like that.

6170. In the Bombay Presidency it is the other way about. So would you accept the statement that what you say applies more or less to Madras?—What are your overdues?

6171. The overdues in Bombay are not as high as they are in Madras. That is probably due to the fact of our loans being short-term loans and that is probably the case also in Madras in the case of such loans?—Our overdues are high only in respect of the long-term loans.

6172. The proposition which you raised in regard to the long-term credit being a common practice was more or less applicable to Madras and not necessarily to Bombay?—That might be so, but the same symptom is visible in other presidencies also. I am not despondent about this Movement, we have already begun to act in that line and considerable progress has been made in our province.

6173. In Madras when loans were first given for ten years, I think the idea probably was that unless the old debts were cleared it was no use helping people in any way?—Yes.

6174. That is why the current requirements of agriculture came to be neglected?—It may be so.

6175. Do you know that the modern tendency drawn from the experience of some provinces is that so far as the long-term loans are concerned, liquidation of debt should be relegated to land mortgage banks, a beginning in which direction is being slowly made and that the primary societies should not be held responsible for it?—That is the view now.

6176. The Movement was put on a long-term basis because that point was not thoroughly grasped at the beginning. The co-operative Movement is mainly meant to meet the current needs of the agriculturist?—That feeling has been very strong in our minds and we have completely changed.

6177. That is what has really taken place in other provinces?—The change for good which we have effected now will be visible only after about 5 years.

6178. Mr. Srinivasa Rao, you too drew a dismal picture of the Movement and suggested that nearly 50 per cent. of the societies were more or less moribund or could be put under that category. Do you mean that the department was responsible for registering these societies or our own people were responsible for bringing them into existence?—I should first correct the premise on which you have put the question, namely that I drew a dismal picture. What I represented to the Committee was the picture

drawn by others of greater weight and authority than myself and even then I was obliged to do it. I should have been the last person to state those matters but for a question put by the Chairman asking for our reasons for the small volume of loans issued at that part of the season when loans were mostly needed by the agriculturists. The other question was about the steps taken to remedy the state of things which brought about that result. In answering these questions I was obliged to state what exactly the position was as shown in published reports by competent authorities.

6179. Where did the question of 50 per cent. of the societies being moribund come in?—Am I to infer that you did not want to draw any dismal picture indicating the failure or wrong lines of development of the societies?—I do not know whether the picture is dismal or bright, but it is a statement of fact which I made. The question about their being moribund had to be brought in because if there were a large number of societies from which recoveries were not being made, that would account in a large measure for the non-advance of loans at the agricultural season. I had also to give an explanation of the disparity in the figures and show the proportion of societies from which recoveries were being made.

6180. You suggest that if all these societies were active and in working condition, very much larger amounts of money would have been required?—All our surpluses would have exploded in a few months and we should have had to go a-begging for deposits.

6181. There would have been greater need for larger funds?—Yes.

6182. What small amounts were paid in the way of loans were for the purpose of payment of land revenue. Were there any other charges to be met by the Co-operative societies during that period?—I wish to bring to your notice that I find from the report of the Provincial Banking Enquiry Committee that after all the amount advanced in a certain year for which figures are given was only Rs. 50,000 for kist purposes, whereas the total loans advanced in that period which is quoted in our report was some lakhs of rupees, which shows the largeness of the amount advanced for cultivation purposes other than kist.

6183. It is not merely for the purpose of giving kist, but also for the purpose of giving him money for maintenance and support?—Certainly.

6184. I should like to know exactly how you would remove the characterisation of societies as being moribund?—What remedies would you suggest?—Do you consider that better propaganda with the help of Government or some other financing agency like your Provincial Bank would be necessary if all these unions were to be given help?—We have started on a regular campaign of work in villages with a large establishment which we have entertained in order to teach the panchayatdars, etc.

6185. Does Government take its legitimate share in this work?—I am afraid not, we are doing it ourselves.

6186. The Chairman read out to you a certain passage where it was pointed out that a great deal of co-operative education has to be spread before any improvement in the right direction could be expected. Do you agree with that proposition generally?—Yes.

6187. If that is so, is it not a matter of cost?—It is a matter of cost, the cost is being met to an extent by Government, it is being subsidised

by the provincial unions also from the co-operative union. There is a certain amount of teaching going on still in the theory of co-operation, not so much in the actual management of societies. In that direction the provincial union is moving and also the Madras Central Urban Bank, through the central bank; with the aid of a large staff now being employed, the panchayatdars are being taught how in the present condition of things they should tackle the problem. If the society does not do it, the union does it and if the union does not do it, the central bank does it. In this way it is exemplified how in actual practice things should be managed.

6188. The Madras Government are spending something like 5 to 8 lakhs?—It is about that.

6189. We spend here something like six. If you find that you are not able to produce the desired result even then supported by the contribution by the Madras Central Urban Bank and the central banks, federations, unions and all the machinery of the organisation, do you not think it is necessary to have some more money spent and larger number of people put into the field than you have at present?—That might be one aspect, but the other and more important aspect of the affair is that there is not that degree of co-ordination of the official and non-official activities in our province which for the expenditure does not produce adequate commensurate results.

6190. You would therefore suggest that the whole movement should be de-officialised?—I am not concerned with the question of de-officialisation now.

6191. My question arises out of your answer, you say there is not sufficient co-ordination?—The required degree of co-operation is also found wanting.

6192. *Chairman*: Would you kindly explain a little more fully what you mean by want of co-ordination between the officials and the non-officials?—In what respect is there a lack of co-ordination?—The commencement of every year marks a definite stage in the progress of the society. We make a clean start at the commencement of the next year, knowing how exactly the society stood and what exactly we have to do. If in that respect the auditor did his duties as required by the Maclagan Committee, it would give a fresh starting point with a clear-cut account of the state of the societies brought to the notice of unions and central banks, so that the latter might start at that point and go on correcting mistakes and improving things suggested by the auditor. We now do things ourselves. For years and years there was the agitation about central banks and unions being furnished with copies of the audit report, but the report is passed to the Registrar through the central bank with the result that it takes months to reach them. Even then certain important statements are omitted and a further fee has to be paid, so that the whole thing has been in a state in which the central banks and unions could not make a good start in the matter of improving the societies. During the last two or three years the central banks and federations have felt themselves called upon to entertain large establishments and through these establishments ascertain the real condition of societies. Instead of straightaway proceeding with the business, they have to wait for the audit report. I maintain that if there is a clear understanding between the department and the non-officials as to what each

shall do, a certain amount of duplication of work might be avoided, and greater output and greater efficiency secured for the very same amount of expenditure.

6193. Is that the only direction in which co-ordination is wanting or have you any other directions in view?—That is the principal thing.

6194. *Mr. Devadhar*: So far as co-ordination is concerned, you want that to be effected between the department on one side and the various co-operating or non-official agencies on the other, one of the directions to effect this co-ordination being to see that the audit was sufficient and well regulated and supplemented by your own supervisors to produce the necessary result?—Yes.

6195. I think that Government accepted some of the recommendations of the Townsend Committee in this regard and have made additions to the staff and reduced the number of societies entrusted to an auditor for audit in the course of the year. Would you describe that as co-ordination?—Though two years have elapsed since this has been done, we have yet to see any substantial result from this arrangement.

6196. In regard to the work of propaganda, besides the work undertaken by central banks or unions, have you any non-official agency that has undertaken Co-operation as a life-work or as an important item of its programme of work?—I know of none outside the Movement, except the Servants of India Society.

6197. You mean to say that other bodies do not take up such work?—I can recall none to my mind.

6198. *Mr. Ramdas Pantulu*: What about the Young Men's Christian Association?—They are doing rural reconstruction work.

In doing that, they are doing some Co-operation propaganda.

6199. *Mr. Devadhar*: For the purpose of the better working of co-operative societies and as a means of effecting economic improvement, would you attach, in any scheme of economic improvement, rural uplift work?—Certainly.

6200. Unless this takes place and the man's surroundings are improved, it is no use putting more money into his pocket which will filter away and go to the liquor shop or in some other way?—A bold experiment in this line is being made in the Salem district by Dewan Bahadur Ramachandra Rao, and others are only waiting to follow his example.

6201. May I therefore take it that it is your view that in order to bring the benefits which are attempted to be brought within the reach of the agriculturist or the farmer by means of co-operative effort, it is necessary that attention should be directed in that direction with the help of co-operative institutions to improve his life, health and surroundings, in fact all that which goes by the name of rural uplift?—Yes.

6202. You would certainly make that as one of the necessary directions in which co-operative work should be done?—Quite.

6203. *Mr. Ramdas Pantulu*: When you ask for facilities for the co-operative Movement, I take it that you are thinking not only of the present but of the future development of the Movement as well?—Yes.

6204. You are aware that in the Reserve Bank Bill which was introduced in the Assembly, there was a definite provision for 25 per cent of its resources being ear-marked for agricultural finance and you are also aware that the Provincial and the Central Co-operative Banks have been brought within the purview of this provision?—Yes.

6205. In putting forward your demands for credit facilities you had this provision in the Reserve Bank Bill in view?—That is so.

6206. *Chairman*: To be more precise in your statements, will you please give us figures for the 12 months ending 30th June 1930. That terminal date would probably be a good date to take because thereafter you come to the season when your recoveries are greater than your advances under the present conditions?—Yes, we shall do so.

6207. Could you also let us know the dates on which your deposits (giving details of amount, etc.), with the Bengal Provincial Co-operative Bank falls due?—Yes.

6208. *Mr. Ramdas Pantulu*: You are in the habit of preparing a resource sheet every month, are you not?—Yes.

6209. That will contain all the information that you are now asked to produce?—Yes, it will.

6210. We shall be obliged if you can therefore send us 12 monthly statements up to the month ending 30th June 1930?—We shall do so.

6211. *Chairman*: You will also kindly send us a calculated position of your fluid reserve as on the 30th June 1930?—Yes, we shall send that also.

TWENTIETH DAY.

Thursday, 18th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman.*)
Sir PURSHOTAMDAS THAKURDAS, Kt., C.I.E., M.B.E. (*Vice-Chairman.*)

Mr. D. P. KHAITAN.	Mr. W. LAMOND.
Mr. F. V. BUSHFORTH.	Lala HARKISHEN LAL.
Mr. MANU SUBEDAR.	Mr. R. W. BUCKLEY.
Sir HUGH COCKE, Kt.	Mr. JADU NATH ROY.
Dr. L. K. HYDER.	Mr. JAMAL MUHAMMAD.
Mr. V. RAMDAS PANTULU.	Mr. NALINI RANJAN SARKAR.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary.*)

Mr. R. P. MASANI, M.A. (*Joint Secretary.*)

Messrs. Nalini Ranjan Ghose and Purnachandra Roy, Representatives of the Indian Tea Planters' Association, Jalpaiguri, were examined.

6212. *Chairman*: You gentlemen represent the *Indian Tea Planters Association of Jalpaiguri*?—Yes.

6213. Are you tea-planters yourselves?—Yes, we are directors of some of the Indian tea gardens, in the Jalpaiguri district, some in Assam and some in *Terai*.

6214. In the Jalpaiguri district can you tell us what percentage of the tea gardens are owned by Indians?—About 5 per cent. of the total acreage is owned by Indians though the number of gardens are comparatively larger. There are about 102 or 103 European gardens and there are 60 Indian gardens. My real point is that the size of a European garden is sometimes more than 5 or 6 times the size of an Indian garden as far as acreage is concerned.

6215. Can you say why Europeans own more acreage than Indians?—Firstly, because Europeans were the pioneers in the line, secondly they have large capital at their command, and thirdly they were able to command better facilities from Government, practically till the other day.

6216. *Sir Purshotamdas Thakurdas*: What is it you mean by saying 'till the other day'?—It is only for the last 5 years or so that Indians are getting facilities for purchasing lands for tea gardens, but till then Europeans had practically the sole monopoly in the matter.

6217. When did the Europeans begin the tea-plantation work? I think it was about the year 1884 or 1885 and as far I could remember, it was in the year 1889 that the first Indian tea plantation was started.

6218. Do you mean to say that even in 1889 Indians found it difficult to start tea gardens?—There were only very few gardens then. Indians began tea-plantation work on a regular scale only recently.

6219. *Dr. Hyder*: What are the difficulties that you are thinking of?—Ordinarily, we cannot plant tea in our lands; there are restrictions which are laid down in the rules, *viz.*, that the capital must be adequate and the supply of food crops must not be affected, etc. Even when all

these conditions could be fulfilled and we approached the Government it was almost invariably used to be refused in case of Indian applicants till recently as I stated before. In some cases conversion order was ultimately obtained with very great difficulty and expenditure.

6220. The Indians and Europeans are in the same category so far as the fulfilment of the conditions in the lease is concerned. Is that not so?—Yes.

6221. Do the Government state the reasons why the permission is not granted?—They simply state that permission has been refused without assigning any reasons. They keep the reasons confidential. The usual procedure is this. You file an application after fulfilling the conditions to Government asking for permission. This application which will have to be addressed to the Board of Revenue is to be filed before the Deputy Commissioner who will pass it on to the Sub-Divisional Officer for enquiry. After getting report from the Sub-Divisional Officer, the Deputy Commissioner will send the application with his report to the Commissioner who in his turn with his report will send it to the Board. Almost always the Deputy Commissioner and the Sub-Divisional Officer happen to be Europeans belonging to the I. C. S. and it is mostly on the report of these officers that the final decision of Government rests. These officers almost always viewed Indian applicants rather unsympathetically.

6222. *Chairman*: But you say this state of affairs has changed during the last 5 years?—Yes, when Mr. K. C. De and Mr. J. N. Gupta were members of the Board of Revenue, the policy of Government was changed through their kind efforts, Government issuing a circular that all facilities should be given for extension of tea cultivation—that served our purpose.

6223. And ever since that policy of Government has remained unchanged. Is that not so?—Yes.

6224. Could you tell us whether there is any publication giving a short history of these tea gardens?—I am not quite aware, but shall try to send you all available literature on the subject for the benefit of the Committee.

6225. *Sir Purshotamdas Thakurdas*: Jalpaiguri is in Bengal and am I to understand that your experience is restricted to your Association in the district?—The members of our Association have also got their gardens in Assam, Darjeeling and other places as well besides Jalpaiguri.

6226. What is your experience of the working of the tea gardens in Assam?—So far as the financial position is concerned, the position in Bengal and Assam is the same in regard to Indian tea-concerns.

6227. Can you say that for certain without any possibility of doubt?—Yes.

6228. *Mr. Rushforth*: Is your Association consulted in any way on an application to start a new garden?—Yes, invariably the Deputy Commissioner consults us to ascertain what our views are.

6229. *Sir Purshotamdas Thakurdas*: When was your Association formed?—Our Association has been in existence only for the last 14 years. Originally our Association was not recognised, but we are generally consulted for the last 10 years.

6230. *Sir Hugh Cocke*: Could you give us any instance where a particular site of land which was refused to an Indian was later on given to a European applicant?—Yes, I am quoting a particular instance in this regard. The president of our Association and several others including

ourselves asked for a particular plot of land after having arranged for the necessary capital and having met the other requirements. The Deputy Commissioner summarily rejected our application. The Commissioner however sent our application back to the Deputy Commissioner for proper enquiry. The Deputy Commissioner on this occasion probably acting on the report of the sub-divisional officer and on the opposition of a European concern again refused, the Commissioner also refused and ultimately the Board also refused. Subsequently some portion of the same land, without any enquiry and objection was allowed to be purchased by the European Tea concern. We made our complaint to Mr. K. C. De, when he came to Jalpaiguri and it was some time after this that the Government changed its policy in regard to this matter.

6231. *Mr. Manu Subedar*: And then ultimately did you get the same lands for which you asked?—No, the remaining portion which was not given to the European concern together with some other lands was given to us.

6232. Can you suggest that the European planter applied for the land on the basis of the information which was contained in your application?—We cannot say that, but they certainly did not want us to open a tea garden in the neighbourhood.

6233. *Mr. Buckley*: Government does not make a difference between purchasing and leasing. Does it?—They do not, but we generally purchase the land now-a-days.

6234. *Mr. Khaitan*: Government gives only permission to cultivate tea on that land?—That is so.

6235. *Sir Purshotamdas Thakurdas*: How many years later did that European group secure the land which was refused to you?—I should think they got in possession within 3 or 4 months after the refusal of our application.

6236. You said you applied again?—Yes, when the policy of the Government changed.

6237. *Chairman*: What you say is in reference to the Jalpaiguri District and not to Assam?—That is so.

6238. *Mr. Sarkar*: Do you ascribe that decision of the Government to change of policy or was it only due to the sympathetic attitude taken up by two Indians Mr. De and Mr. Gupta?—Of course these gentlemen were instrumental in bringing about that change of policy on the part of the Government and a circular to that effect was issued probably on their recommendation.

6239. *Mr. Manu Subedar*: Were there any protests against that order of Government?—Certainly there were many, by the Europeans.

6240. *Sir Purshotamdas Thakurdas*: There is a Tea Association or Board there in your place. Is it not?—Yes, two of our members are on that Board.

6241. What is the total number of members on that Committee?—Perhaps it is 10 or 12. I am not quite sure.

6242. Of which two are Indians?—Yes.

6243. Have you any division of interests between Indian and European?—Generally, the interests are common.

6244. *Chairman*: Generally the questions considered are recruitment of labour and things of that sort. Is that so?—Yes, including popularising of tea, etc.

6245. *Sir Purshotamdas Thakurdas*: Regarding the recruitment of labour have you any difficulties?—No.

6246. Barring the trouble at the start and the financial difficulties, there is no other differentiation between an Indian and a European?—No.

6247. *Chairman*: You said that Government did not give any reason why applications were refused in previous years. Have you found that the reason was mainly insufficiency of capital?—In our case, all the circumstances were in our favour. The only objection that was laid against us was that a few of the proprietors of the land were not willing to sell their lands to us. Of course we could have met that objection if we had been told about it and then there was an additional plea that though the land was not fit for paddy cultivation, vegetables were being grown there and so on. Our complaint is that those objections were not raised when the land was later on sold to a neighbouring European concern. As a matter of fact those objections were not at all even considered. That is our grievance.

6248. Generally speaking is it within your knowledge whether the main reason or one of the reasons for refusing permission to the Indian concerns was based on insufficiency of capital?—I know that in one or two instances the report was that it was want of sufficient capital that stood in the way of granting permission, but generally speaking that is not the reason for which permission is refused.

6249. I am mentioning this to you as this point has been brought out in the Bengal Committee Report?—It is true that the Bengal Committee refers to this, but not in connection with the matter of conversion.

6250. *Sir Purshotamdas Thakurdas*: Can we get anywhere the total capital, acreage, out-turn and other details with regard to the European gardens as a whole as also those of Indian tea gardens?—We have got a printed statement giving such details in regard to members of our Association, but we cannot give you such details with regard to the European tea concerns.

6251. Have you got a copy of that statement of your Association with you now?—Yes, here it is (hands a copy of the printed statement).

6252. This statement deals only with the Jalpaiguri tea concerns under Indian management, is it?—No, it refers to all Indian tea garden under the Jalpaiguri management including all those who have their head offices in Jalpaiguri but have gardens in Jalpaiguri as well as in other places like Darjeeling or Assam.

6253. *Mr. Khaitan*: How many Assam gardens are included here in this list?—About half a dozen.

6254. *Chairman*: Then these gardens in Assam that have been included in this list are those who have their head offices at Jalpaiguri?—Yes. Some of them have only their head offices here, they have their tea gardens only in Assam.

6255. *Mr. Rushforth*: Are those companies quoted in the list of stock-exchange in Calcutta?—No, they are not.

6256. *Mr. Buckley*: Nagar Hill Company is there?—No, it is not an Indian company. Only there is the Gopalpur Company.

6257. *Chairman*: I have been trying to find out whether all those companies are on the list of Calcutta stock exchange, but I do not find them there.

6258. *Mr. Manu Subedar*: Are there any companies owned by Indians but managed by Englishmen?—There is only one under the direct management of Martin & Company. But Martin & Company are the Managing Agents of 17 tea gardens and they have nothing to do with the internal management.

6259. *Mr. Khaitan*: There are two other companies of the Maharaja of Darbhanga and the Maharaja of Baroda. They are managed by Englishmen?—I do not know.

6260. *Mr. Manu Subedar*: There is a company called Bose & Company?—No, that must be a Bengali firm.

6261. *Chairman*: May I call your attention to paragraphs 208—210 of the Bengal Committee's Report. In paragraphs 209 and 210 the committee state that tea gardens owned by companies registered in England have in most cases been started with adequate capital raised from shares and debentures, and that the share capital of joint stock companies and the invested capital of the proprietors of Indian owned gardens are insufficient for all the financial needs of those gardens. Could you tell the committee whether you agree with this summary of the position? If you refer to paragraph 209 you will find mentioned: "Among the gardens, those owned by companies registered in England experience no difficulty with regard to finance as they had been started in most cases with adequate capital raised from shares both preference and ordinary. A few of them have in addition issued debentures. Practically all of them have the further advantage of obtaining easy accommodation from many non-Indian joint stock banks, whenever necessary." This is about Bengal. As regards Assam tea gardens. I would refer you to the reply of Rai Bahadur Nagendra Nath Choudhury to a question to the effect: "All Indian tea gardens did not start with sufficient capital?"—And his reply was "that is the case only as regards the mushroom companies which came into existence during the last 10 or 12 years; they are started by men who are simply out to make a living and who left college getting tired of their educational life and who started on their venture without any sort of business training. They certainly did not start with adequate capital. They started with a few thousand rupees in hand, sending out canvassers, telling people about future prospects and so on. I do not believe in these companies. I mean only those who have really put in their capital and I am speaking on their behalf ". Have you to make any observations in regard to these opinions?—As regards the first question the committee has practically reported that for Indian companies it is most difficult to obtain capital from non-Indian joint stock companies. As regards Roy Bahadur's statement, I am not in possession of any such information.

6262. Are you talking about the Indian firms?—No.

6263. I am now talking about the Indian concerns. They say that the proprietors of the Indian owned tea gardens do not get capital. Is it correct?—Yes, they do not get enough capital.

6264. Therefore, you also admit the correctness of what they say?—Yes. So far as that goes.

6265. Now, as regards Assam is it also correct?—No. I am only talking about Jalpaiguri.

6266. Whatever you said upto now is only about Jalpaiguri?—Yes. In Assam I know only of a few gardens owned by Assamese.

6267. Therefore what you say in your memorandum about Indian owned tea gardens in Assam applies to gardens which have the head offices in Jalpaiguri.—Yes.

6268. If the share capital and invested capital of the Indian owned gardens are insufficient, would you tell the committee whether the finance for non-recurring purposes should not be obtained from further issues of share capital or debentures instead of being obtained by loans from Loan Offices, money lenders or marwari bankers as described in paragraph 211 of the Bengal Committee's Report?—I shall first try to give a short history of this tea industry which may make the position clear. In former years as I told you in the beginning, we had not to purchase lands. The whole of the district of Jalpaiguri was full of jungles. In those years there were many good plots of land available for settlement where we could start tea gardens. Therefore there was no necessity of initial expenditure for purchasing tea lands. Generally the companies were started with a small capital of Rs. 50,000 or a lakh. At that time the cost of production was also very small. Afterwards if a certain amount was needed, the help was generally given by the local Bank, the Jalpaiguri Banking and Trading Corporation. After four or five years those companies could meet the current expenses from the outturn of the gardens. But now the cost of production is more and we have also to purchase lands. We do not now start companies with a capital of Rs. 50,000 or a lakh. We now start a company generally with a capital of three lakhs and there are realised another three lakhs by way of admission fees. So we get something like six lakhs for the initial expenditure. Our experience is that we cannot get more money by sale of shares. Tea Industry is the best industry that would prosper in Jalpaiguri, but we cannot get the entire capital required. In the third and the fourth year of our starting a garden we want Rs. 1½ lakhs more for factory, machinery, etc. If we get this money by loan we can very well hope that the garden will flourish in ten years or even earlier and all the debts will be paid off during that period. After that the company will be able to pay a fair dividend.

6269. *Dr. Hyder*: You require an additional capital of Rs. 1½ lakhs for machinery?—Yes.

6270. *Chairman*: Is it not possible to get this additional sum of Rs. 1½ lakhs at the outset by way of shares?—I have already stated that it is impossible to get a larger amount by way of shares.

6271. I will just read out to you the evidence given by Mr. A. F. Rahman before the Bengal provincial committee. He says: "There is such a keen demand for tea shares (especially of a garden in the Jalpaiguri district) that the share capital could be subscribed 2 or 3 times over." If this is correct, I think there will be no difficulty to raise twice the capital? —There should be one modification to this statement. Mr. Rahman's statement is correct as far as the position five years ago is concerned, and the demand is keen only when the capital is fixed low.

6272. But he does not state so?—It was in the boom time, and he must have meant that.

6273. He does not say so. This statement has been very recently made. I think about eight months ago.?—Mr. Rahman has come to Jalpaiguri only about seven or eight years ago. At that time there was boom time and the position was such as is mentioned by him. The reason is that they could start a company with a capital of three lakhs and there was that keen demand. But now it cannot be done like that.

6274. But Mr. Rahman does not say so?—Then I would modify his statement.

6275. You say that the company begins with a capital of three lakhs and it wants further Rs. 1½ lakhs for machinery, etc.?—Yes.

6276. Could you not get Rs. 4½ lakhs?—No, as I have said we cannot get a larger amount by issue of shares. People fight shy of companies with a larger capital.

6277. *Mr. Khaitan*: Was Mr. Rahman a Professor of Dacca and Aligarh Universities?—Yes.

6278. *Chairman*: May I know for how many years Mr. Rahman has been in the tea gardening business?—For about six or seven years.

6279. But he is still in this industry?—Yes.

6280. Therefore, the fact that he was a Professor would not affect the statement that he makes as a leading tea planter?—No. Mr. Rahman commenced the business of tea garden first as a proprietor. Now, he is a director of one company and recently he has been appointed a director of another company.

6281. *Dr. Hyder*: His family has long been connected with this business.

6282. *Mr. Manu Subedar*: You say that Rs. 3 lakhs are required by way of shares and another Rs. 3 lakhs as admission fees. If you mention this large amount and even if you show that the people will get dividend on the shares, they would not be willing to purchase them?—No. Big capital companies do not attract people of Jalpaiguri.

6283. Are you in a position to give the whole garden as a security against the loan?—Yes.

6284. In spite of this security you could not get funds?—No, we can't.

6285. You say for the machinery you require only Rs. 1½ lakhs. Will it be uneconomical to raise this sum at the outset?—Yes.

6286. *Chairman*: You say that to raise a small capital at the outset will be uneconomical. But I have a note here by Mr. Joges Chandra Ghose who says that it is possible to raise capital by instalments?—People will fight shy to purchase shares, of a company with a larger capital as I have said.

6287. *Mr. Manu Subedar*: The attraction to the people is to yield a large dividend?—Yes.

6288. *Mr. Sarkar*: Can you give us an instance where a company was floated with a small capital and with financial facilities given to them, they were able to repay their debts?—I can give you half a dozen such instances but at present I may give you one instance. A company named Sarda Tea Company Limited was started with a capital of Rs. 3 lakhs. Even the whole of this capital was not called. Afterwards there was difficulty during the war slump and another loan of Rs. 3 lakhs was raised; after some time it was necessary to raise a further loan of Rs. 1 lakh. All this loan was repaid and the company began to give more than 100 per cent. dividend.

6289. *Chairman*: I have got here a note by Mr. Tarini Prosad Roy. He does not refer to this aspect but he refers to the working capital. He says: "The Directors of such gardens have to borrow either on their personal security or on the mortgage of the gardens." When you say that the gardens offer even more than 100 per cent. dividend and if there is this attraction, why could you not raise capital by this method?—These well-developed gardens are not generally in need of funds by way of block. I am simply referring to the undeveloped gardens and I think Tarini Babu is referring to those well-developed gardens.

6290. *Chairman*: If the tea gardens are not in a position to declare any dividend for a series of years, would any cautious banker finance such gardens?—Certainly, the value of each tea garden would be several lakhs. A garden with 5,000 plants in it is considered to be a very valuable garden and can easily expect a loan of Rs. 50,000.

6291. That will be a question of opinion.

6292. *Mr. Jamal Muhammad*: If the gardens could get this finance for running expenses, they would be able to declare dividends?—Yes, they will; there can be no apprehension in the mind of any tea planter as to that. Now because gardens are increasing in numbers and the resources of the local banks are limited, we have to go to the Calcutta banks and have to pay such high rates at 12, 14 or sometimes even 15 per cent.

6293. *Chairman*: If the security were really as good as you believe it is, would not other people or shareholders themselves produce the additional finance required?—The shareholders are all poor middle class people. Some of the directors are of course rich and substantial men and they do contribute as much as they can.

6294. *Mr. Manu Subedar*: If the loan was not forthcoming you think the gardens would be ruined?—Absolutely.

6295. Could you just describe to us the ruin of a tea garden?—In former years there have been difficulties about borrowing money even at very high rates and the dividend had, as a result to be postponed for 3 or 4 years. If no money can be had the garden goes.

6296. Assuming there is a factory which is unable to raise the necessary finance; it has got to sell out and I want to know the value at which these gardens are sold out, since that will enable us to ascertain the value of the security at a knock-down value?—We know of instances where gardens were ruined because they could not find even 25 or 30 thousand rupees and were sold out at the instance of the creditors. The Bekantpur tea garden was sold out for 8 or 10 thousand whereas the real value of the property was something like 5 lakhs.

6297. So it entails very heavy loss if timely assistance is not forthcoming.—Yes.

6298. *Dr. Hyder*: So you get back just the value of the land?—Sometimes not even that.

6299. *Chairman*: That shows that the security to the bank would not be wholly satisfactory?—I do not agree to that. A living tea garden is a very good security.

6300. *Sir Hugh Cocke*: You said that if the particular tea garden to which you have referred had about Rs. 25,000 or Rs. 30,000 at most it could have been brought on to the dividend-earning stage?—At the time that it was started they did not think that it would require any help or they would not get such help.

6301. *Chairman*: Let me draw your attention to a passage which occurs on page 120 of the Bengal Committee's report: "The minimum size of a garden on a commercial scale is five hundred acres for which the initial outlay is estimated at 7½ lakhs of rupees, including a lakh for the purchase of machinery and another lakh for securing the land "?—That statement is roughly correct.

6302. And therefore when you said the initial capital wanted was 3½ lakhs I naturally assumed that you were giving figures of a concern which

it would be possible to run on a commercial basis. You gave 3 lakhs to be subscribed by shares, as the initial capital and your subsequent demand was between 1 and 1½ lakhs?—I do not differ from that finding. What I have stated is exactly the same. I said that 5 lakhs will be raised by share capital and another 3 lakhs by way of admission fees and I wanted another 1½ lakhs for building up a factory, etc.

6303. *Sir Purshotamdas Thakurdas*: How do you raise this 1½ lakhs?—For this I must go to the financier. Formerly we did get the finance and as a result the old tea gardens are flourishing. Now we do not get those facilities; hence the difficulty.

6304. *Mr. Khaitan*: Is the admission fee a charge on the garden?—It is an unsecured loan to be repaid to the shareholders when the garden is able to declare dividends.

6305. Without interest?—Yes, without interest.

6306. The whole garden on which there has been an outlay of nearly 6 lakhs is the security which can be offered for this 1½ lakhs?—Yes.

6307. *Chairman*: If you try to raise the balance of 1½ lakhs either by shares or by increasing the admission fees, there is no chance of your getting the capital?—No.

6308. As regards current requirements or other annual recurring expenses, the Committee say no serious attempts are made for building substantial resources when such high dividends as 50 to 150 per cent. are paid and that if the dividends be limited to say 15 per cent. for a few years and the rest of the profits carried to Reserve, most of the gardens will be able to accumulate a sufficient Reserve Fund for meeting these expenses. Could you kindly tell the Committee what dividends were paid by the Indian concerns during the last ten years?—As regards the dividend, I have given the figures in the sheet in your hand, which gives figures not only for the last 10 years but for 15 years. So far as these gardens are concerned, they are not in difficulty regarding finances; some of them have even built up reserves. We are only speaking of tea companies which do not declare dividends.

6309. The Bengal Report says, "Two companies at Jalpaiguri have built up such substantial reserves that they are now able to meet their current requirements without any extraneous help; but all others have to take loans for meeting their recurring expenses of cultivation and manufacture"?—That is true. As regards the other tea companies, they do not experience any difficulty about finance; I mean the companies which have built up reserves and are paying out high dividends do not experience any difficulty with regard to finance for meeting their running expenses.

6310. Previously these companies used to get finance from local banks; and after they had built up reserves, they should not have gone to those banks so that the banks could satisfy other concerns which needed finance?—That is true. All these companies do not approach the banks; they go to the brokers who have the attraction of selling tea produced in the gardens.

6311. But the brokers do not accommodate tea gardens which have not yet started producing tea?—Very seldom.

6312. *Mr. Sarkar*: I believe that the tea gardens in which you are interested may be classified as follows:—

(a) Those that are not yet developed and have been operated for two or three years and require fresh capital for block expenses for development including putting up a factory, machinery, etc., up to the stage of crop production.

(b) Those that produce crops but not enough to meet current expenses. They therefore require funds for shorter terms for carrying on the work until the crops will enable them to repay the loans and declare dividends.

(c) Those that are fully developed and pay dividends. They may not have built up enough reserve to take care of current requirements and require short term funds for current expenses. They may also require block capital for extension.

Is that not so?—Yes. For the third class I am not very anxious I am anxious for the second class and for block capital for the first.

6313. *Chairman*: In paragraph 212 of the Report, the Bengal Committee say that the Imperial Bank is debarred by the Act of 1920 from making any advances against block and that its loans to the gardens therefore take the form of advances against personal guarantee of the broker with the hypothecation of crop as collateral security and that the bank charges 7 per cent. interest and that the brokers charge 1 per cent. on the gross sale proceeds including brokerage and other expenses in connection with the sale. Would you kindly tell the Committee whether you consider that the broker's charge of 1 per cent. is reasonable or not?—The broker's charge of 1 per cent. is theoretically reasonable, but the statement is not correct. The brokers get 1 per cent. on sale of tea and an additional one per cent. for standing as a guarantor.

6314. *Mr. Manu Subedar*: Does the Imperial Bank give money on the broker's guarantee?—Yes.

6315. And your difficulty is that except in the case of concerns which are producing tea in sufficiently large quantities, the broker takes no interest and therefore he does not stand as a guarantor?—No, except in exceptional circumstances.

6316. *Mr. Jamal Muhammad*: Do you mean to say that without the guarantee of the broker, the Imperial Bank would not give a loan?—No, unless it is through three or four European firms or managing agents. Even in the case of Jalpaiguri Bank which is a prosperous concern, the Imperial Bank would not advance even on their own guarantee; then the Chairman of the Indian Tea-planters' Association, who is a very substantial person offered to give his signature; but the Imperial Bank would not accept the guarantee.

6317. *Dr. Hyder*: The Bengal Committee in their evidence have recorded this: Question—What class of persons are accepted as guarantors? Are only the tea broking firms in Calcutta, *e.g.*, Messrs. Crosswell and Co. accepted as guarantors? Is the Bank prepared to accept the guarantee of reputed Indian banking firms interested in the tea industry (*e.g.*, Jalpaiguri Banking and Trading Co. Ltd.) or of respectable Indian Managing Agents? "Answer.—The Bank does not confine its acceptance of guarantors to any class of person or firm, the Bank being guided purely by the means and standing of the person or firm proposed as guarantor."

6318. Now do you accept that?—It must appear to you that the Bank has evaded the question.

6319. *Dr. Hyder*: How?

6320 *Mr. Khaitan*: Supposing a person has got 6 or 7 tea gardens. Is it a fact that the broker insists that he should be appointed the sole broker of all the 6 or 7 gardens before he would stand guarantor in respect of loans to be given for one tea garden?—When the broker has agreed to be satisfied with one per cent. of brokerage, he has, as a matter of fact, taken into consideration the fact that he is getting the other tea gardens as well. That is the inducement for which he is prepared to stand as guarantor in respect of the money advanced on one tea garden.

6321. *Mr. Khaitan*: That is to say, whether he makes it a part of his agreement or not, he sees to it that he gets the sole brokerage of all the six or seven tea gardens before he stands guarantor for one tea garden?—That is true.

6322. In that event, the amount of commission that he actually gets is much more than 1 per cent. of the gross receipts?—Yes.

6323. You said that the Imperial Bank does not accept the guarantee of any Indian; am I right in saying that in some cases Mr. Tarini Prosad Roy was prepared to be guarantor?—That is true.

6324. What was the amount of finance required for the tea garden for which he was prepared to stand guarantor?—Any particular tea garden was not mentioned, but along with the Jalpaiguri Banking and Trading Corporation, he offered to stand as guarantor to the Imperial Bank. Only very prosperous tea gardens were wanting finance and they perhaps wanted about 4 to 5 lakhs.

6325. The security for that would be the Jalpaiguri Banking and Trading Corporation and Mr. Tarini Prosad Roy. Could you say if all four European brokers, whose guarantees alone were acceptable by the Imperial Bank, are of the same standing as Mr. T. P. Roy?—I do not know that exactly.

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6328. You are putting forward this evidence not so much by way of complaint against the Imperial Bank, but you are trying to make out a case that some banks should be brought into existence, so that on occasions like this you could on reasonable rates get financial assistance in order that the tea gardens may be properly developed and placed on a sound working basis?—Our problems would be solved if such a bank comes into existence. Up to this time neither the Jalpaiguri Banking and Trading Corporation nor any other moneylender who has advanced money to this tea garden has ever repented having done so.

6329. *Chairman*: You know that Mr. T. P. Roy put in a written statement before the Bengal Provincial Banking Enquiry Committee and in it he does not mention this instance. He does not make any complaint that on a particular occasion the Imperial Bank refused to grant a loan to a tea company, though he himself offered to stand as guarantor?—I can only say

that it is within the personal knowledge of my colleague (Mr. Purna Chandra Roy) that Mr. T. P. Roy was not in Jalpaiguri, but was staying in Calcutta when somebody went to his residence, put certain questions to him and he gave answers to them. Because he has not mentioned this matter in his statement, it does not mean that it is not true. It is absolutely true.

6330. I am not disputing the truth of the statement. My point was that if Mr. T. P. Roy, who is the individual concerned in the matter, had mentioned this in his statement, it would have been investigated by the Bengal Committee when they were examining the Imperial Bank?—I believe he has stated something about the Jalpaiguri Banking and Trading Corporation.

6331. That is another matter. If he had stated that on a particular occasion he himself wanted to stand guarantee and that the Imperial Bank would not advance money on his guarantee, the position could have been investigated by the Bengal Committee?—I do not know what was in his mind, perhaps he did not like to bring in his name.

6332. *Mr. Khaitan*: Perhaps he was modest and did not like to say that he was a rich man and all that.

6333. *Mr. Sarkar*: In his note on Tea finance, Mr. Tarini Prasad Roy has said that if the Imperial Bank could advance money not only on the personal security of the directors but on the hypothecation of the annual tea crop without the guarantee of a broker, there would have been additional facility to the Indian tea gardens.

6334. *Chairman*: The point made by the Imperial Bank was that "the Bank does not confine its acceptance of guarantors to any class of person or firm, the Bank being guided purely by the means and standing of the person or firm proposed as guarantor." There are two points before us, firstly that the Bank did not advance money on the guarantee of the Jalpaiguri Banking and Trading Corporation. This point does not seem to have been admitted. Is Mr. Rahman connected with the Jalpaiguri Banking and Trading Corporation?—No, he may be a shareholder.

6335. When the question was put to him whether it was a fact that the Imperial Bank refused to accommodate even on the guarantee on the Jalpaiguri Banking and Trading Corporation, he replied he did not know. Another gentleman, Mr. Jai Gobinda Guha, late Manager of the Corporation, does not refer to any specific case where the accommodation was refused by the Imperial Bank?—The difficulty is that Mr. Guha has lost touch with the Corporation for several years.

6336. He does not say when the connection ceased?—His connection ceased more than 10 years ago.

6337. Without giving specific cases, is it within your knowledge that you approached the Imperial Bank for accommodation and that accommodation was refused?—(Mr. Purna Chandra Roy) I myself approached the Imperial Bank with the proposition that the tea garden would hypothecate its crops to the Bank and that the Jalpaiguri Banking and Trading Corporation and men like Mr. Tarini Prosad Roy would stand guarantee. Their only reply was that they would only advance on the hypothecation guaranteed by some European broker.

6338. Would it be too much to ask you to send us a copy of the correspondence?—It was done verbally.

6339. *Sir Purshotamdas Thakurdas*: How many years back was this?—In the course of the last four or five years; the last time I approached was about 2 years ago.

6340. *Mr. Manu Subedar*: I find that the loans of the Jalpaiguri Banking and Trading Corporation amount to about 41 lakhs of rupees. I heard a remark from Mr. Ghose that the tea business in Jalpaiguri has advanced so much that the local bank can no longer come to their assistance in the way of loans, machinery and so on and that the demand is greater than can be supplied by this one institution. Could you tell us the reason why other institutions have not come into existence?—There are smaller institutions which have actually come into existence, but it is difficult to get deposits. Though the amount of business in the Jalpaiguri Corporation has increased to a great extent, we have not got any banks to help us.

6341. The Corporation has been giving very fat dividends?—It is a fixed percentage of 50 per cent.

6342. I do not think the Imperial Bank or the Chartered Bank has ever given 50 per cent. I do not see why you yourselves should not raise more capital and increase your operations?—Our capital is a small amount, it is Rs. 50,000.

6343. Your operations run into 50 to 60 lakhs of rupees, and therefore you are naturally able to declare such high dividends. You have reached a maximum limit on your deposits. Can you not get more deposits?—What is the difficulty about attracting more deposits?—Deposits depend on the tea market.

6344. What class of deposits have you largely?—We have deposits from Jalpaiguri people, from outside people, from Government officials.

6345. *Sir Hugh Cocke*: What rates do you pay on deposits?—6 and 7 per cent.

6346. What is your long term?—Two years at the maximum.

Mr. Khaitan: You said that the share capital of the Jalpaiguri bank is Rs. 50,000. Could you tell us the present reserve fund of the bank?—9 to 10 lakhs.

6347. *Chairman*: The statement which was supplied by your bank in 1929, based on the balance sheet of 1928, shows the reserve fund as approximately 4½ lakhs. Between 1928 and the present time, has the reserve fund been increased from 4½ to 10 lakhs?—No answer.

6348. *Mr. Manu Subedar*: Under different names you have accumulated reserves amounting in all to 10 lakhs?—Yes.

6349. *Chairman*: I cannot see where the balance of 10 lakhs would come in. Have you a balance sheet of the Jalpaiguri bank?—No.

6350. Would you kindly send us a copy of the last balance sheet?—Yes.

6351. *Mr. Khaitan*: When it is said that you give a dividend of 50 per cent. on the share capital and accumulated reserves, your dividend only comes to about 2½ per cent.?—Yes, by a resolution we cannot raise that dividend.

6352. *Sir Purshotamdas Thakurdas*: For how many years have you been declaring 50 per cent. dividend?—4 or 5 years.

6353. And for how many years has the bank been in existence?—40 years.

6354. *Mr. Manu Subedar*: Your loans are largely given to the tea trade?—That is so.

6355. You are practically a trade bank and the bank owes its existence to the tea industry and the industry in its turn owes its existence to the bank?—Yes, and the Jalpaiguri Banking and Trading Corporation has never repented advancing money to the industry. If I may be allowed to mention it, Sir Rajendra Nath Mookerji also advanced our companies about 40 lakhs at a time when funds were needed and he has got back his entire amount *plus* a very large amount of profit.

6356. So that the security against which such advances are being made is not so inadequate?—I think it is absolutely adequate and that amount was given in a very bad year of the industry and it saved the tea companies.

6357. The Jalpaiguri branch of the Imperial Bank lends out only on the security of the broker against the crop. Its operations are largely commercial operations, *i.e.*, as soon as the guarantee note is put in, it makes the advance. It does not go into assessing the real value of tea gardens?—That is so.

6358. *Mr. Jamal Muhammed*: Could you tell us the amount of deposit which the Jalpaiguri Corporation has on an average?—About 60 lakhs of rupees.

6359. Is practically the whole of it used in financing tea gardens?—Not the whole of it.

6360. If you are short of funds and require more money, and you are making 50 per cent. dividend, why do you not increase the deposit rate to attract more capital?—The feeling is that if a bank increases the rate of its deposit, that brings down its prestige to a certain extent.

6361. *Sir Hugh Cocke*: Have your deposits been largely affected by Government loans or postal cash certificates at 6 per cent.?—Not appreciably.

6362. *Mr. Jamal Muhammed*: Is it usual for brokers who stand guarantee to insist that in case they give the guarantee the sales should take place through some selling agents?—That is a condition.

6363. *Chairman*: My next question is: In paragraph 213 of the Report, the Bengal Committee say that 18 Indian gardens in Jalpaiguri are financed by Messrs. Martin and Co., who charge a commission of 2½ per cent. on the gross sale proceeds and interest varying from 8 to 9 per cent. on the annual advances. Seeing that the rates charged by the Imperial Bank of India through a broker are more favourable than those charged by Messrs. Martin and Co., could you tell the Committee whether these Indian gardens experience any difficulty in obtaining their finance from the Imperial Bank? If so, could you explain what the difficulty is due to?" You have already answered the question. The difficulty is in your approaching the particular broker and it arises in the case of those tea gardens which are not yet producing tea in sufficient quantities. Is that correct?—Yes.

6364. Have you anything to add to it?—Most of the 18 gardens are established gardens and they actually got assistance from Martin and Co., in the bad years of tea trade. So Sir R N. Mookerji became the agent of these gardens at that time, and has continued since then.

6365. *Mr. Khaitan*: How much does this 2½ per cent. commission on the gross sale proceeds amount to on the amount advanced?—Sometimes it comes to 5 per cent., sometimes even more, and sometimes 7½ per cent.

6366. If a particular tea garden borrowed 2 lakhs of rupees, the gross sale proceeds will amount to six lakhs?—Sometimes.

6367. So that 2½ per cent. amounts to 7½ per cent. *plus* interest of 8 to 9?—In extreme cases.

6368. In some cases the interest comes to about 15½ to 16½ per cent.?—Yes. Some of these gardens have, as a matter of fact, got away from Martin and Co.

6369. *Chairman*: The 2½ per cent. is charged not only for accommodation but also for arranging the sales?—As a matter of fact, the sales are arranged through the brokers themselves.

6370. You pay for it separately?—Yes.

6371. *Mr. Khaitan*: Martin and Co., are not tea brokers?—There are only four firms of brokers, Messrs. A. W. Figgis and Co., W. S. Cresswell and Co., Carrit Morgan and Co., and J Thomas and Co.

6372. Apart from the commission of 2½ per cent. and the interest of 8 to 9 per cent., is it a fact that these tea gardens have also got to buy their stores through Martin and Co.?—The agreement was that they were to purchase their stores through them and we have to pay a certain percentage.

6373. As a matter of fact, are all the stores purchased through them?—Not always.

6374. What would be the percentage of the total requirement of stores that is bought through them?—I cannot give you the figure.

6375. *Mr. Manu Subedar*: The machinery and plant would very largely be bought through a firm like Martin and Co., who could give you technical advice?—As a matter of fact, we have acquired that knowledge ourselves, so we generally purchase direct.

6376. *Sir Hugh Cocke*: Am I to understand that 2½ per cent. is not for sale and that a further brokerage has to be paid for selling?—Yes.

6377. *Chairman*: Therefore the statement in the Bengal Committee's report that Martins 'do not participate in the actual management of gardens and their services are practically confined to providing the requisite funds and arranging sales of the produce' is not correct?—It is not exactly correct. What they actually do is simply to hand over the invoice to the firm. That is the only part they play.

6378. If that is so, why do not these firms now change from Martin and Co. to the Imperial Bank through brokers?—They have got away from Martin and Co., and they have come to my friend's bank (referring to the Jalpaiguri Corporation).

6379. So the number 18 financed by Martin and Co. has now gone down?—Yes.

6380. *Sir Purshotamdas Thakurdas*: Martins are still agents for some Indian tea gardens?—Yes.

6381. *Mr. Sarkar*: How would those tea gardens have fared if Sir R. N. Mookerji had not come to their rescue at the time when they were in need?—They would have been ruined.

6382. There was no chance for them to get money at that rate?—No, they could not get any help and it was at the eleventh hour that he came to their rescue.

6383. *Dr. Hyder*: I cannot reconcile the statement you have made with what is said by Martin and Co. You say that a brokerage fee of 1 per cent. is charged on the gross sale proceeds, besides the commission on the sale proceeds of tea varying from 2½ to 7½ per cent. Looking at the evidence given by Martin and Co., before the Bengal Provincial Committee, they say that their commission has not varied during the last 12 years, they charge only 2½ per cent., and there is no compulsion on the tea estates to buy the stores from them?—As a matter of fact Martin and Co. have changed this attitude towards Indian gardens recently, and though they were very kind at that time, now-a-days they charge a high percentage of commission which would perhaps be more than 7½ per cent. I can give at least two cases in which the commission charged is certainly more than 2½ per cent, Choibaree Tea Company and Bhojanarayan Tea Company.

6384. *Sir Purshotamdas Thakurdas*: When did Martin and Co., change their attitude?—I think it was in 1918.

6385. They changed their attitude in regard to the two gardens?—Yes.

6386. I hope you are quite sure of the facts because we intend pursuing this matter with Messrs. Martin and Co., to find out what their view-point is?—We are quite sure of the facts.

6387. *Mr. Manu Subedar*: What is the rate of commission charged by them?—One pice per pound of tea until the mortgage debt is repaid, 2 pice per pound until the company declares a dividend of 20 per cent and if the dividend exceeds that figure, 1 anna per pound.

6388. *Sir Purshotamdas Thakurdas*: How do you explain Martins prescribing such prohibitive terms as it were?—We could not get advances elsewhere, and that is the difficulty.

6389. The Martins were quite favourably disposed towards Indian concerns till then, is it not?—Yes, but that was due to the personal element of Sir R. N. Mookerji who helped the Indian concerns largely.

6390. *Mr. Jamal Mohammad*: Whenever a broker is willing to stand as guarantee, you do not have any difficulty in getting accommodation from the Imperial Bank. Is that not so?—Of course that is the position but the brokers almost always refuse to help us in this matter.

6391. Is it not a fact that the management of these tea gardens do not also like the idea of going through a broker for fear that they might be tied down to them?—That is also true, in theory.

6392. *Mr. Manu Subedar*: The broker refuses to stand guarantee for a loan from the Imperial Bank but he does not refuse to take tea from you. Is that not so?—That is true.

6393. And you have to make your sales only through these four European brokers paying them 1 per cent. commission. Is that not so?—Yes.

6394. Are there any Indian exporting firms which export tea?—None to my knowledge.

6395. *Chairman*: Messrs. Martin and Co., are the managing agents of these two concerns which you refer to, the Choibaree and the Bhojnarayan Tea Companies. Is that so?—Yes, to the same extent as the managing agents of the other 18 Indian gardens. Really speaking they are only financing agents.

6396. The Committee would also like to know whether you have anything to say on the method of marketing tea. In paragraph 167 of the Report, the Bengal Committee say that the market for tea is thoroughly organised and that the simplicity of the procedure followed in that market accounts for the absence of any financial difficulty generally associated with marketing. Would you kindly tell the Committee whether this correctly summarises the position in regard to marketing of tea?—As regards the method of marketing tea which prevails at present we have very little to say except this that we do not always like that our tea should be sold entirely through 4 European firms.

6397. It is stated in paragraph 167 of the Report of the Bengal Committee that the yield of gardens other than those owned and managed by firms registered in England is sent to Calcutta where it is handled by four European firms of brokers who act as auctioners on behalf of their clients. I take it that the fact that there is no Indian firm of brokers for the marketing of tea is due to the fact that the Indian gardens have not thought about marketing till now, as stated in Mr. Rahaman's reply to Dr. Sinha before the Bengal Committee?—Yes, that is so.

6398. If the Indian tea gardens are producing such large quantities of tea, why cannot they establish an Indian broker?—I have no personal knowledge, but I do not think it will be very easy to establish an Indian house in the face of opposition by the European brokers.

6399. *Mr. Manu Subedar*: Do you mean to say that older firms will not allow this new Indian firm to function?—Yes.

6400. *Chairman*: If the Indian producers would make it a rule to go only to the Indian broker, do you not think that the difficulties would disappear?—This can only be done if the tea is consumed in India by Indians and moreover we have to make arrangements for the sale of our tea in England.

6401. *Mr. Manu Subedar*: Who bids at these auctions?—As a matter of fact these people form a ring. Mostly, Messrs. Harrison and Crossfields, Brooke Bonds, Liptons, and one or two others are the chief buyers. When they form such a ring, our position becomes rather bad.

6402. But for that combination you will get better price for your tea?—Yes.

6403. *Chairman*: Is it not the buyers who make arrangements for export and not the brokers?—That is true.

6404. In the case of tea which is sent out of the country, arrangements outside the country for shipping tea, etc., are made by buyers and not brokers. Therefore that particular difficulty will not be met by an Indian firm of brokers because they will have to sell their goods to the foreign

purchaser of tea. Is it not so —I do not know whether all these firms who are now buying tea from us would be buying them from an Indian firm of brokers if one is established.

6405. *Sir Purshotamdas Thakurdas*: Who are the actual buyers of tea who pay you before export?—You will get the answer to that question in the written memorandum submitted by Mr. A. F. Rahman to the Bengal Banking Enquiry Committee wherein he says "The tea industry is passing through a crisis at present. The buying of tea has been concentrated in the hands of a few people not more than 5 or 6 (Brooke Bonds, Harrison and Crossfields, Liptons, etc.), and they therefore control the prices effectively and in order to prevent a combination of producers, they pay discriminating prices, *i.e.*, high prices to some and low prices to others. Even though we are selling tea practically at the cost of production, the consumer does not benefit at all as his prices have not fallen. This ring of buyers has become possible because large tracts have come under tea recently principally in Java and Sumatra; and buyers exploit this bogey of over-production, but the world's consumption has also increased and would increase more if retail prices were cheaper. This is the biggest problem before the Tea Industry". This statement is generally correct.

6406. *Mr. Buckley*: You are not bound to sell your tea at the auctions and as a rule you also withdraw your lots when you do not get a suitable price for your tea. Is that not so?—Yes. Although we withdraw once, we cannot afford to keep the stock waiting, for we must have our money back.

6407. *Chairman*: If your proposition is that you do not know what the difficulties are in the way of an Indian firm of brokers establishing itself for the marketing of tea to the extent that is now being done by the 4 European firms, I do not want to pursue the matter?—We are not aware of all the reasons or the difficulties.

6408. *Mr. Manu Subedar*: Have you ever worked out the ruling price of tea in London and the price at which you sell your tea at these auctions and have you had any occasion to regret for having lost by your sales in this country through these auctions?—There have been some cases like that.

6409. *Sir Purshotamdas Thakurdas*: According to Mr. Rahman and the witnesses before us, there are only four firms of European brokers in this country who have the sole monopoly of the tea business in this country and the 4 or 5 European firms would buy only through these brokers. So then, the Chairman's question with regard to the starting of an Indian firm of brokers for tea does not arise. My own experience is that under such circumstances an Indian broker would not thrive at all.

6410. *Mr. Lamond*: In regard to these sales of tea to the 4 European brokers, the same difficulty is experienced both by the Indian and European tea planters. Is that so?—Yes, except in the case of a few European tea concerns who ship their tea direct.

6411. *Mr. Rushforth*: If you had the feeling that at any time you are not getting your fair price for your tea is there anything to prevent your exporting tea direct to London?—In the case of our local sales we get the price within about 10 days of the sale, but if we ship to London,

that will mean a delay of a few months before we will be able to realise our monies.

6412. *Mr. Lamond*: It means you must have more capital to do such direct business. Is that not so?—Yes, that is also one factor to be reckoned with.

6413. *Sir Purshotamdas Thakurdas*: There is another possibility, that the English firms might refuse to accept your goods, because it is an Indian selection. Do you agree?—That is true.

6414. *Mr. Manu Subedar*: It is only those companies who are not tied down to their brokers that can export tea direct, if at all?—That is so.

6415. *Sir Purshotamdas Thakurdas*: For several other considerations supposing you made up your mind to ship a certain quality of tea for sale abroad, would you discount your bill for 70 per cent of the invoice price with a bank here?—We do not get such facilities here at all.

6416. Has it been tried?—We have no personal information.

6417. *Chairman*: You say there is a strong rumour prevalent in Jalpaiguri and also in Calcutta circles that there has been a sort of understanding amongst Calcutta banks that none of them would finance or in any way help any mofussil bank or loan office who might have taken up financing of any Indian tea concerns or are helping with finances for expansion of business of other sorts of Indian concerns. You suggest that due confidential enquiries should be made to ascertain if it is a fact. You must recognise that it is not possible for the Committee to make any enquiries with reference to an allegation of some rumours and in the absence of concrete instances. Can your Association help this Committee with any concrete cases of the nature mentioned in the rumours?

Mr. Purnachandra Roy: I myself approached the Lloyd's Bank at Calcutta for facilities and I was refused. We have no other specific instances in view.

6418. *Mr. Manu Subedar*: On what security did you approach them?—On the hypothecation of crop together with the security of the Jalpaiguri Banking and Trading Corporation.

6419. Do you think they did not accommodate you because of their inherent antipathy towards Indian enterprises or is it because out of their consideration for the Imperial Bank?—So far as I am aware, they do advance to European concerns.

6420. *Mr. Buckley*: Because one Exchange Bank refused to accommodate you, it does not follow that there is a combination amongst the Calcutta Exchange Banks and other Indian joint stock banks for not doing this business. Does it show that?—That is our feeling in the matter. We would be very glad if your bank would advance money to us, if you have no objection.

6421. Are you not aware that instead of having a combination of the sort which you are talking of, there is really keen competition between these banks?—There should be competition, no doubt.

6422. *Mr. Rushforth*: Could you send us confidentially the correspondence that passed between you and the Lloyd's Bank on the subject?—I am afraid we have no papers on the subject. I asked the Bank orally and that was the answer I got orally.

6423. *Mr. Manu Subedar*: Would I be wrong in putting the position this way that some Indian leading business men have approached these Exchange Banks and the latter have refused accommodation?—I cannot say that. As a matter of fact another Indian was fortunate in getting the accommodation required from an Exchange Bank.

6424. *Chairman*: Which is that concern and which was the Exchange Bank concerned?—It was the Gopalpur Tea Company which got the financial help from the Lloyd's Bank.

6425. That being so, when the same bank has given the accommodation in the case of one Indian firm against another, there is no reason to presume that there is an understanding of the sort that you contemplate. Any way we need not pursue the matter.

6426. *Chairman*: My next question is: "You suggest that the difficulties of Indian tea concerns can be solved if the Imperial Bank of India can be induced to advance finances to these concerns with the local banks to support them as additional guarantors for due repayment of finances. Would you kindly tell the committee whether any such proposal was ever made to the Imperial Bank and how they were considered by that Bank". I think that portion has been answered by you. You say that there is no actual correspondence with the Agent of the Imperial Bank —These things, I do not think, anybody will give in writing. So, perhaps, there may be no such correspondence.

6427. Suppose we take up this matter with the Imperial Bank they will ask for evidence. In other cases we have been provided by other witnesses with actual documents. If you have got any correspondence we can pursue the matter, otherwise we cannot?—We shall look up our file and see if there is any correspondence. If there is, we shall send you the copies.

6428. If you will send the correspondence earlier it will be better, because we can refer the matter to the Managing Governor on the 27th when he will come here as a witness.

6429. *Mr. Manu Subedar*: You say you may get facilities from the local bank; have you to pay higher rate of interest?—Some local banks do not charge anything more than the mere interest.

6430. *Mr. Jamal Mahomed*: There was a German ring in Calcutta who were not buying or selling anything from and to Indians, is there any such ring in tea gardens?—No, I have no information on the point.

6431. *Sir Hugh Cocke*: You said about Rs. 3 lakhs are necessary for a company, would that apply to a company of any size?—They do not vary much in size.

6432. You refer to the hypothecation of crops. What about the hypothecation of stocks?—I mean the manufactured stocks.

6433. Can you not get financial assistance if you want to hold up the stock pending sale?—The brokers give this assistance.

6434. But you do not get whatever assistance you think you are entitled to get?—We get the proceeds after the auction.

6435. Do you get from the brokers financial help before the tea is sold?—Not a great deal.

6436. *Mr. Lamond*: Do not brokers give advances against tea?—Only a nominal amount.

6437. *Sir Hugh Cocke*: What amount?—About 50 per cent. of the value.

6438. You do not require any further help from the bank if you get 50 per cent. from the brokers?—If we secure on the invoice it is better.

6439. If you send your tea to Calcutta, do you get any advance before the sale?—In very exceptional cases. Generally, moneys are actually sent ten days after the tea is sold.

6440. So, in that case you want accommodation from the bank —No, we want also for the running expenses.

6441. *Dr. Hyder*: You have tried local resources and also the Calcutta market, have you tried any other market?—We have tried marwadi money-lenders but they charge higher rates.

6442. Did you try Bombay and Madras?—No.

6443. If you went to a bank, you would get accommodation at 9 per cent. Supposing you went to an indigenous banker, with the same security, at what rate would you get the accommodation? Could you explain the difference in the rates?—No answer.

6444. In order to get regular supply of advances would you prefer an industrial Bank?—Yes.

6445. *Mr. Jamal Mahomed*: Have you tried the London market?—No.

6446. *Mr. Manu Subedar*: Supposing your production is worth Rs. 15 lakhs and if there are four brokers, then in that case you will receive any financial help?—All these tea companies are tied down to a certain broker or other. And therefore it is not possible.

TWENTYFIRST DAY.

Friday, the 19th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. D. P. KHAITAN.	Lala HARKISHEN LAL.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. JADU NATH ROY.
Sir HUGH COCKE, Kt.	Mr. G. K. DEVADHAR, C.I.E.
Dr. L. K. HYDER.	Choudhri MUKHTAR SINGH.
Mr. V. RAMDAS PANTULU.	Mr. JAMAL MAHOMED.
Mr. W. LAMOND.	Seth HAJI ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E., (*Secretary*).

Mr. R. P. MASANI, M.A., (*Joint Secretary*).

Mr. V. C. Rangaswami Iyengar and Mr. P. Raghavan Nair, representatives of the Southern India Chamber of Commerce, were examined.

6447. *Chairman*: Mr. Rangaswamy, you are engaged in business in the Madras Presidency?—I am Secretary of the Madras Urban Bank and a member of the Southern Indian Chamber of Commerce.

6448. You say that in regard to industries, as a general rule, the necessary working capital is lacking and that the shareholders are anxious for immediate results. May I take it, therefore, that industries find it difficult to get finance both for initial capital requirements and for current working expenses?—Industrial concerns are able to raise the initial capital when they start the work, but they lack working capital at a later stage.

6449. You are not making any difference between block capital and working capital?—Let me take an illustration to make my meaning clear. Supposing a public utility concern such as an Electric undertaking starts business with a capital of about 3 to 4 lakhs; it puts up a generating station, sets the machinery and is able to supply energy to the area under the contract; later on more consumers come in for power and the concern has got to go in for additional machinery and also for material in order to be able to meet the extra demand; now it has got to provide capital for this additional machinery and also to run the whole concern at a later stage.

6450. Surely, your Chamber does not consider that the additional machinery is part of the working capital?—It is added to the block and it is for the purpose of earning additional revenue that capital for more machinery is needed.

Sir Hugh Cocke: No capital which goes into the block capital is considered as working capital.

Lala Harkishen Lal: An electric company does not require much in the way of working capital.

6451. *Chairman*: Do you not think that what is wanted is both capital for further development which would be part of the block capital as well as working capital?—Yes.

6452. You would accept the soundness of the proposition that in a type of concern to which you refer it would not be the lack of working capital which would compel the concern to shut down its operations?—Yes.

6453. Would you kindly mention some of the industries with which your Chamber is connected and state how they have managed to secure their capital? Suppose they wish to obtain further capital, would it be available?—The Chamber is not directly connected with any particular industry, but the individual members are carrying on different industries. Some of the industries with which the members of the Chamber are connected are textile, ginning factories, iron foundaries, cottage lungi manufacturing (coloured cloth), pencil, ink, tanning, mining, chemicals, salt, furniture, etc.

6454. Are any of the members of your Chamber engaged in an electric undertaking?—There are a few.

6455. Is it not the practice with banks in Madras in regard to electric undertakings to advance money on a portion of the block for the installation of the additional machinery, etc., on the personal security of the Directors?—In one instance the concern which I have in view had to provide capital for development because the consumers increased and they were not able to get any accommodation from their bankers.

6456. Your Chamber is aware of only one concern. Would you be kind enough to give us more details of the undertaking?—The name of the concern is the Trichinopoly Electric Supply Corporation. It started with a certain amount of capital and wanted more money later on to instal machinery because the number of consumers increased and it tried to secure accommodation from their bank.

6457. Why is it not possible for a concern if it is a sound concern to raise money by additional share capital or by debentures?—Failing to get additional capital such concerns raise money by debentures.

Mr. Lamond: Speaking generally, a company of standing which needs small additional capital for additional requirements will, I am sure have no difficulty in providing themselves with the necessary funds.

6458. *Chairman*: When debentures are issued, banks are unwilling to advance working capital even on the hypothecation of goods?—We were talking of an electric concern; they have no goods to offer as additional security.

6459. But an electric concern does not require much working capital?—Compared to the block, they do not require much working capital.

6460. You say that the Imperial Bank lends to European industrial concerns more freely whereas several of the Indian concerns which took the Imperial Bank's assistance have had bitter experience. Could you give the committee any actual instances of the policy of racial discrimination on the part of the Imperial Bank and also the names of a few of the Indian concerns which have had bitter experience in this matter?—If you want to give this information *in camera*, we are quite willing to agree to that.—In cases where the industrial concerns are under the control of European management, capital is flowing to them, whereas in cases

of industrial concerns of long standing which were under Indian management and had previously been getting sufficient accommodation, credits were suddenly cut off and the concerns had to come to grief; such as the Chitvalasa Jute Mills.

6461. We have already heard enough of that. Can you now give us actual instances of racial discrimination on the part of the Imperial Bank?—I could mention the name of the South India Industrials of Madras.

6462. What was the nature of their experience?—They were controlling a cement concern, a jute mill, a foundry, rice mills and other sundry business in Madras. The office of the firm was in Madras City, but the jute mill was outside Madras, the cement factory was in Madras and the rice mills somewhere in the Tanjore District. They were originally started by Sir George Arbuthnot and had been carrying on business up to 1925. After having dealings with the Imperial Bank for as long as nearly 18 years, they lost the confidence of the Imperial Bank. I could not tell you definitely for what reasons they lost that confidence. The result was that they had to transfer their jute mill at Chitvalasa.

6463. Therefore, the only concrete fact is that they lost the confidence of the Imperial Bank; that does not support your allegation against the Imperial Bank of racial discrimination.—The withdrawal of support from this concern was due to this racial discrimination on the part of the Imperial Bank. We only take it by inference; otherwise it is difficult to explain how a concern which satisfied the Imperial Bank for 18 whole years should all of a sudden be denied accommodation.

6464. *Mr. Lamond*: May I ask if the Chitvalasa Jute Mill was a going concern in 1907?—I was talking about the South India Industrials.

6465. *Mr. Manu Subedar*: When your memorandum was passed the members of the Committee of your Chamber were present and they had perused it?—Yes.

6466. And they supported the statements made unanimously. They must have done so either on a knowledge of facts which they possessed or on a deep impression or opinion formed after many years' experience—Quite so.

6467. You may not have all the facts at your command. Would you like to raise this question with your Committee again and after a conference with them, send us definite particulars?—I could.

6468. *Chairman*: Would you prefer that?—Yes.

6469. *Sir Hugh Cocke*: When you send us the information, it would be of advantage if it is supported by a history of the company up to the stage when this assistance was forthcoming from the Imperial Bank and also thereafter when the assistance was withdrawn—Yes.

Mr. Jamal Mahomed: I suggest that the information be obtained from the parties concerned.

Chairman: The witness told us that, as it is, his Chamber or he did not know much about the facts. We have asked him to supply us with the facts after consulting the Committee of the Chamber. We do not know who the parties are, they are apparently non-existing.

Mr. Jamal Mahomed: The South Indian Industrials, which is the party concerned, are non-existent, but the people who were conducting the concern, are alive and I suggest the information could be obtained from them.

Chairman: The Southern India Chamber of Commerce have sent us this memorandum and it is up to them to supply us with the concrete case which led them to make the statement. It is not for us to indicate what procedure they should or should not follow to supply us with the information. I daresay the witness will take the hint.

6470. You say that several substantial banks now remain outside the Clearing House. Can you give the Committee some instances of such banks in Madras, and also state why they are not members of the Clearing House?—To my knowledge there are 4 banks which are not in the Clearing House at present.

6471. Would it be possible for you to name them?—The Hindusthan Bank of Madras, the Quilon Bank, Limited, the Nedungadi Bank, Limited, and the Madras Central Urban Bank.

6472. Have you any information whether any of these four banks tried to join the Clearing House?—I have no information; I only know they are not in the Clearing House.

6473. Did the Madras Central Urban Bank ever apply to become a member of the Clearing House?—No.

6474. Would their business entitle them to become a member of the Clearing House?—It would.

6475. *Dr. Hyder*: When was the Hindusthan Bank established?—They started business about 8 or 9 months ago.

6476. *Chairman*: How long has the Quilon Bank been in existence?—It has been in existence for some time; I do not know their exact standing in the market.

6477. And the Nedungadi Bank?—It has been in existence for the last 16 to 18 years.

6478. You have no knowledge whether any of these three banks ever applied to become members of the Clearing House?—No.

6479. *Mr. Khaitan*: You are yourself connected with the Madras Central Urban Bank—Yes.

6480. You say you did not apply to be a member of the Clearing House—Yes.

6481. If the banks have voluntarily remained out of the Clearing House, the inconvenience you refer to is the inconvenience caused to the customers of the bank—Yes.

6482. If the bank feels any inconvenience it would naturally try to become a member of the Clearing House—Quite so.

6483. If the bank is not admitted as a member of the Clearing House, then it would make a complaint?—There would be ground for complaint.

6484. Is the object of your making this statement then that when a bank starts business it must become a member of the Clearing House?—It must be made easy for banks to get into the Clearing House.

I want to understand your position clearly. Take the case of your bank about whose affairs you know thoroughly well. You do not apply to become a member of the Clearing House and you are not making any complaint. Then how can you say whether it is easy to become a member of the Clearing House or not?—That can only be said when you apply to become a member and you are rejected?

6485. *Mr. Manu Subedar*: If membership is refused, it must affect its credit—It must.

6486. Has difficulty been experienced by any of the other banks?—I do not know.

Lala Harkishen Lal: When the Tata Industrial Bank was not taken on the London Clearing House, we were given as the reason for it that only 9 banks were taken on the Clearing House. There is an instance where the Punjab National Bank was not taken on the Bombay Clearing House for some time, but they have since been taken. My own experience is that greater facilities are now being given for entry into the Clearing House than before.

Chairman: An Indian Chamber of Commerce has said something which supports what Lala Harkishen Lal has said:—

> "Such a rigid procedure may be conceded in view of the fact that the membership of Clearing Houses is saddled with heavy responsibilities in so far as the actual clearance of balances between the various member banks is often deferred overnight although credit is taken for balances awaiting payment."

It is hardly necessary for us to discuss with the witness in view of the fact that he has definitely said that the Madras Central Urban Bank has never applied to become a member of the Clearing House and he does not know whether the other three banks have or have not applied.

6487. *Mr. Lamond*: You said that great inconvenience would be caused to the customers of a bank if it is not a member of the Clearing House. Will you explain how the inconvenience is caused?—The question came up before the Chamber that for payments which the members of the Chamber have to make to the Madras Port Trust and the Customs House cheques are not accepted unless they become members of the Clearing House.

6488. *Sir Hugh Cocke*: Why has not the Madras Central Urban Bank applied to become a member of the Clearing House?—There is the question of ballot, one does not take sufficient courage to apply for admission knowing that the ballot may either be in favour of, or against, the applying bank.

6489. *Mr. Jamal Mahomed*: You have mentioned several banks being outside the Clearing House. You are making no complaint, but only point out the inconvenience caused to the banks' customers by their being outside—Yes.

6490. *Chairman*: When payments due to Government and local bodies are made by means of cheques, I suppose you agree that credit cannot be given until the cheques are realised and credited to the Government account or to the account of the local bodies concerned?—Generally credit cannot be given for payments by cheques, but what I suggest is that in cases of well-known merchants, of whose credit there is no question, a point may be extended in their favour in respect of port dues, godown rent, etc.

6491. *Mr. Jamal Mahomed*: Would you include railway freight in that?—If the railway companies extend that facility.

Mr Lamond: The railway companies do accept cheques.

6492. *Chairman*: Is it a fact that at the present moment the Customs House and Port Trust do not accept cheques on approved banks and bankers?—That was the complaint made by a certain section of the members of our Chamber.

6493. Will they not accept a cheque, say, on the Imperial Bank? Is it their custom not to accept any cheques?—They must be prepared to accept cheques on banks that have a certain standing in the market.

6494. That is precisely my point. It makes your position somewhat weaker. Is it the present practice that the Customs House and the Port Trust accept cheques drawn on banks whom they consider to be approved or safe banks, or is it the practice not to accept any cheques?—They do accept some cheques, those on members of the Clearing House only.

6495. You suggest that either the open accounts should be acceptable to banks as collateral or that they should be converted into hundis for discounting. Can you tell the Committee how it is possible for banks to accept open accounts as collateral?—As far as my knowledge goes, such a practice is prevalent among the American banks, *e.g.*, to accept open accounts for credit to be given to customers.

6496. Could you refer us to any authority?—I had this information from an authoritative book. The Bankers' Magazine also now and then gives reports.

6497. *Mr. Lamond*: Would you explain what an 'open account' is?—Suppose a wholesale merchant in Madras sends some goods to another merchant in the mofussil and debits him in his book for the cost price of the goods supplied. In certain cases this debit is supported by a pro-note by the merchant who takes the goods from the wholesale trader in Madras. On the claim which the wholesale merchant has against the mofussil merchant to the tune of the goods supplied, credit facilities may be provided for him.

6498. Are such facilities now provided when there is a pro-note?—Yes.

6499. *Chairman*: The pro-note is the tangible security and it may be possible to provide that the pro-note, if it is good security, should be discounted by some other bank. Is that what you are really thinking of?—I want it to be extended even to book debts.

6500. Without any security?—There is the general credit of the merchant.

6501. *Mr. Lamond*: I know of special cases where advance is given on liquid assets in which book debts have been included?—That may be in very special cases, it is not within my knowledge.

6502. *Mr. Buckley*: In the case of cash credits which are given against stocks, if the stocks are sold and converted into book debts, then the book debts become collateral security?—We have heard that Indian joint stock banks do not do it at all.

Lala Harkishen Lal: It is not done in the Punjab, the reason for it is that the merchant class is not so well organised in our province.

Mr. Khaitan: The practice in Calcutta is that it is not the wholesale merchant who sends goods, but the commission agent who sends goods to the mofussil, and usually the mofussil merchant does not give either a pro-note or a hundi to the commission agent in return for the advance made to him. I would like to go into this matter further, because it

would help us, in making our recommendations, to know the various kinds of security on the basis of which we should recommend banks to make advances.

Chairman: You refer to the American practice. I shall quote to you from the evidence given by Mr. Benjamin Strong before the Hilton-Young Commission. This is what he says:

> "The result has been that every borrower at a bank has to execute some form of instrument expressing his debt, and the most usual instrument used in the type of advance that is the equivalent of the advance account of the English joint stock banks is simply a note of hand."

Therefore, we practically come to the question of advances on notes of hand and I understand that that is usually given. As a matter of fact, the accommodation given in India by some of the English banks, though not by all the Indian joint stock banks, is that an advance is given on book debts when those book debts represent goods sold.—Not for new advances.

6503. *Mr. Jamal Mahomed*: You want not only pro-notes, but also book debts to be taken as collateral security?—Yes.

6504. *Chairman*: You say that either a branch of the joint stock bank, or a co-operative credit society, or an approved indigenous banker should be available in all towns to collect hundis attached to railway receipts. Would you kindly explain what you mean by approved indigenous banker? How would you make such a bank or banker 'available' for the purpose you mention?—What I suggest by this statement is that there are cases where railway receipts attached to hundis come before Indian joint stock banks and if they happen to be drawn on persons residing in the mofussil where there are no branches, they generally do not undertake the collection or their discounting. My suggestion is that in places where agencies are available for collection as well as for discounting hundis with the railway receipts attached, recourse may be had to these agencies for the collection of the hundis backed by railway receipts and the railway receipts handed over to the parties.

6505. That is really a matter for the particular indigenous banker or merchant and, so far as we are aware, in some provinces at any rate, the indigenous banker does provide this class of accommodation. By 'available' you mean that some outside agency should make an indigenous banker available?—My idea is that the indigenous banker or the available co-operative society, if it is brought into the general fabric of the banking organisation of the country, will serve this purpose better.

6506. But so far as the indigenous banker is concerned, nothing prevents him from doing the work and from what we know, he actually does the work in various provinces. Does he not do the same class of work in Madras?—But his status is nebulous. If he is connected with a banking organisation, he will have a better status.

6507. *Mr. Devadhar*: By 'co-operative society' you mean a co-operative bank?—I refer to a co-operative urban bank, and not a primary village society.

6508. Even if there be an institution of the size of a co-operative bank, would you still advocate it being done by an indigenous banker?—I put it only as an alternative suggestion. It is preferable to get it done by a co-operative urban bank, where one is in existence.

6509. Do you agree that the co-operative movement has brought down the rates of interest?—Yes.

6510. You would therefore agree that if such work could be undertaken or allowed to be undertaken by co-operative banks of small size, it would be to the advantage of the cultivator—Surely it would be to his advantage.

6511. *Mr. Jamal Mahomed*: In your statement you say "either a branch of a joint stock bank, or a co-operative credit society or an approved indigenous banker should be available in all towns to collect hundis, etc." I thought you contemplated that where joint stock banks have not got branches or agencies and where any difficulty in negotiating a hundi attached to a railway receipt is found co-operative societies or indigenous banks should be made use of?—That is so.

6512. *Chairman*: Then you used the word 'available' in the sense 'made use of.'—That is the point. At present co-operative urban banks are not permitted to do that business and they should be made use of, because they are in existence and they could give facilities in discounting hundis.

6513. Is the view which you have now expressed, *viz.*, that preference should be given to a co-operative urban bank as against an indigenous bank, the view of the Southern India Chamber of Commerce?—Yes.

6514. What would be your answer to the critic that even with the present conditions of the country the promoters of the co-operative movement have not been able to exert their fullest energies for the further promotion of the co-operative movement and that such being the case it is undesirable and it is against the true interests of the co-operative movement and its legitimate function that they should take up extraneous work. This criticism has been put forward in some of the Provincial Committees' reports as well. What is your answer?—I do not approve of the suggestion. I should think it is too conservative. I am of opinion that co-operative banks must be permitted to do all general forms of banking business.

6515. *Mr. Devadhar*: With the existing concessions or not?—I have not thought about it.

6516. *Chairman*: As representative of the Southern India Chamber of Commerce you would not object to these co-operative banks, with the concessions that they now enjoy from Government or from the general tax-payer, competing with other institutions for commercial banking business which is primarily outside the scope of the co-operative movement. Is that the view of your chamber?—As it is, the present concessions from Government are not very much except things like exemption from stamp duty.

6517. Whatever that may be. As it is, the answer should be very simple. A criticism has been made by certain commercial bodies that so long as co-operative banking institutions enjoy certain concessions from Government at the expense of the tax-payer they should not be allowed to compete with either joint stock banks or indigenous bankers in regard to commercial banking business which is outside the proper sphere of the co-operative movement. May I know what the view of your chamber in regard to this matter is?—The view of the Chamber is that co-operative banks may be permitted to do such banking business.

6518. *Mr. Devadhar*: Supposing a co-operative society and an indigenous banker were both existing at a centre, would you prefer the co-operative society to the latter?—Where a district central urban bank existed, it

should be given preference to an ordinary indigenous banker. The view of the Chamber is that owing to insufficient banking facilities in this country, co-operative banks should be given permission to do this business.

6519. *Chairman*: Take the case of Trichinopoly for example. Is it your idea that the District Urban Bank at that centre should be preferred to an ordinary indigenous banker?—Yes.

6520. *Mr. Jamal Mahomed*: Supposing there is a branch of an Indian joint stock bank in a certain place where money has to be collected with reference to a hundi attached to the Railway receipt. Would you prefer the joint stock bank to be superseded by your co-operative bank in such a case?—It is not likely that a bank in Madras which has got a branch in Trichinopoly would prefer to send it to the co-operative bank for collection.

6521. Supposing a joint stock bank has an agency in a mofussil town would you even then insist that the business should go to a co-operative bank rather than to the agency of the joint stock bank?—Such a position is never contemplated in our memorandum.

6522. *Mr. Manu Subedar*: Are the Indian joint stock banks members of your Chamber?—Yes, they are.

6523. And you have also indigenous bankers who are members of your Association?—Yes.

6524. Therefore, I suppose you, as a representative of the Southern Indian Chamber of Commerce, would not stress the question of preference too much, because your Association's interests are common?—

Chairman: The witness has already given his unambiguous opinion of the Chamber on that matter and I do not see any object in pursuing the matter.

6525. *Mr. Manu Subedar*: I am only putting the position hypothetically. The representatives of the co-operative movement have expressed themselves before us that they are not satisfied with the existing facilities that are given to the movement but wanted further facilities and concessions to be made to them. If the co-operative movement had confined itself to its own operations of providing the agricultural credit, etc., nobody would have any objection to view your point sympathetically, but when this question of commercial banking business is raised, do you not think that the concessions that you ask for might be jeopardised? What is your view about this?—My own personal view is that the co-operative societies should be prepared to forego these concessions in order to enable them to do banking business of every description rather than stick to these concessions.

6526. *Seth Haji Abdoola Haroon*: As a private merchant or banker, at present anybody is at a liberty to purchase these bills and arrange for their collection. Is that not so?—Yes.

6527. How is it then that you are suggesting that anybody's hands should be forced to have their transactions in regard to this matter passing through a particular kind of banking institution?—My suggestion is that in view of the paucity of banking facilities in this country all the existing organisations may be made available for the benefit of the traders and the merchant community in general in the matter of easy facilities for the collection of bills.

6528. My point is that if this Committee recommended that the co-operative banks should be enabled to do this business in preference to

other indigenous banks or joint stock banks and if the last named refused to enter into negotiations for the purpose of collecting hundies through the co-operative institutions, would you then compel the Imperial Bank to do this business?—I do not contemplate any compulsion whatsoever.

3529. *Mr. Devadhar*: If the co-operative institutions will afford cheaper facilities than the joint stock or indigenous bankers, then naturally the customers will go to the co-operative agency. Then, I cannot understand wherein comes the question of compulsion?—I agree.

6530. *Chairman*: Seth Haji Abdoola Haroon's point seems to be this. Supposing at the headquarters of a district there is a branch of a joint stock bank. At another place there is a district urban bank of the co-operative society, but there happens to be no district urban bank at the first station. Now a hundi is brought to the branch of the joint stock bank which the man, who brought the same, wants to be sent to the other station, which we might call B where there is the urban bank. Now, the branch of the joint stock bank refuses on the ground that it is not good business. In that case would you compel the branch of that bank to accept this hundi and pass it on to the urban bank?—As I have already said, our Association does not contemplate any compulsion at all. I might further elucidate my point. At present the Indian Bank Ltd. of Madras has not got many branches in the presidency. They sometimes get hundis drawn from different parts of the province and even from other provinces as well. They generally send these hundis to us for collection and we are usually doing that for the Indian Bank. What the Chamber is suggesting is that institutions, on account of the fact that they do not possess a large number of branches, need not shut themselves away from the business because they can get that work done through the existing co-operative institutions.

6531. But then that will depend on a large measure on the goodwill of the parties?—If you make a recommendation of that character, I daresay it will have the necessary effect.

6532. *Mr. Khaitan*: Your last explanation has cleared up my point in a way. Let us take the case of the Madras Province as the basis. Madras may have to send goods to places within the province itself or to places outside the province, and similarly goods may also be coming into Madras from other parts of the province or from other provinces. What at present happens is, as you have already stated, that there may be joint stock banks or indigenous bankers willing to discount the hundis of traders because of their position and standing but in many cases they are unable to do so either because they have not got branches at the place of collection or they have no recognised agents at present?—Yes.

6533. Therefore, to that extent trade finds itself in a difficulty in the matter of getting hundis discounted when it is felt that this facility ought to be rendered available by some organisation?—Yes.

6534. Therefore, I take it that your Chamber suggests that some organisation should be devised whereby it should be possible for a joint stock bank or an indigenous banker or a co-operative bank to be able to discount hundis drawn on places where they have got no branches or agencies?—Yes.

6535. You have not given us a scheme for that purpose, but I suppose that it is your intention, as Mr. Kasturibhai Lalbhai on behalf of the Ahmedabad Millowners Association told us, that a co-ordination should be

brought about between the joint stock banks, indigenous bankers and the co-operative banks so that hundis negotiable at a certain place may be collected at another place through that organisation and secondly, to avoid the necessity of a double charge being imposed in the matter of discounting and collection of hundis?—That is an important point.

6536. Is it the idea of your Chamber that there should be some mutual arrangement between the existing agencies whereby this double charge on collection should not exist?—The idea of the Chamber is that facilities should be available.

6537. As regards co-ordination, at the present moment, according to the views of the Chamber, the Joint Stock Banks and the Indigenous Banks are loosely scattered without there being any link between them?—That is so.

6538. Is it the opinion of your Chamber that if some method could be devised whereby some indigenous bankers could be recognised either by the Imperial Bank until the Reserve Bank comes into existence or by the Reserve Bank when that comes into existence and if those recognised Joint Stock Banks or indigenous bankers could be more easily trusted because of that recognition, greater facilities would be available to the discounting houses in every part of India to discount hundis and send them for collection to the recognised banks or bankers?—In that we include the co-operative banks too.—The idea of the Chamber is that steps should be taken to bring about such a co-ordination.

6539. Is it your idea that if Joint Stock Banks and Indigenous Bankers could be recognised by the Imperial Bank, then other banks and bankers in other parts of India would be able to open a list of persons, firms and companies to whom bills could be sent for collection and that the machinery of the Imperial Bank or the Reserve Bank could be helpful for that purpose?—Quite so.

6540. And thus a co-ordination could be brought about?—That is the idea.

6541. What should be the terms of the recognition?—That is a matter of detail to be worked out later.

6542. Having got that co-ordination, there can be neither any question of compulsion nor any question of preference?—What would happen is this. As to whether a hundi of a particular person, firm or company can be discounted by any bank or banker is a question that will depend upon their position, standing and respectability. Therefore, there can be no question of compulsion. There can be no question of preference because if you have got a list of persons, firms and companies to whom a hundi can be sent for collection, it is for the original discounter to pick and choose to whom that discounter is to send the hundi for collection. It must be left to the company as to whether it prefers a joint stock bank, an indigenous banker or a co-operative bank for the purpose. If a person can trust an indigenous bank or banker, he can send it to him. If it is a joint stock bank, he can send the hundi to that bank and if it is a co-operative bank that he trusts he is at liberty to send the hundi to that bank. But what you want is that co-operative banks on which restrictions in this behalf have been now imposed should be free?—They should be free.

6543. *Mr. Devadhar*: Have you heard a criticism with regard to the business of co-operative institutions that it should be confined by them so far as possible to co-operative transactions?—I have not.

6544. Will you restrict it?—I will not.

6545. Are you in favour of keeping co-operative institutions free?—Yes.

6546. *Chairman*: You also refer to the desirability of giving facilities for release of imported goods piece-meal on payment to the bank concerned. Cannot this be arranged by the importers themselves with the foreign exporters by splitting up the order into a number of small orders?—There are certain manufacturing firms which fix a minimum limit for orders to be placed upon them and the facilities offered for people importing a minimum quantity will not be available to those who place piece-meal orders.

6547 Have you any details regarding any particular manufacturing firm?—No. I have no details.

6548. You suggest that in regard to co-operative societies for cottage industries, there should be an all-India federal organisation and depots in different centres for the more economical handling of raw materials and manufactured articles. You are probably referring to those cottage industries the products of which are destined for markets outside the province. If so, could you name for the information of the Committee a few such industries?—I would just refer to the handloom industry for making cloth and there is the coir industry especially in Malabar, the metal industry, *i.e.*, making brass and bell-metal which are being manufactured on large basis, lacquerware, artware, coiring work, matting, bangles, slate, etc.

6549. You say that the experience of industrial banks in the past has not been encouraging. Could you kindly tell the Committee something more about this experience and the particular bank or banks you have in mind?—There are a number of industrial banks which have decent paid-up capital. I can give a few names:—

The Carnatic Industrial Bank with a paid up capital of 60 lakhs.

Mysore Industrial Bank—paid up capital 9 lakhs and Deposit Accounts 27 lakhs.

The Industrial Bank of Western India, Ahmedabad, paid up capital 20 lakhs. Deposit account 32 lakhs.

The Tata Industrial Bank had a huge paid up capital.

These are some of the instances I could give.

6550. Have any of these banks become defunct or are they all functioning?—The Tata Industrial and Carnatic Banks have ceased to function. The Mysore Industrial Bank is in a moriband condition. I am not sure about the position of the Industrial Bank of Western India, Ahmedabad. Why do you say their experience in the past has not been encouraging?—They have not been able to come to the help of the existing industries and their position in the money market has not been useful to the industries of the country.

6551. Do you think that the assistance from Government would conjure back to life banks of this type?—It will certainly inspire greater confidence in the public if Government help is forthcoming.

6552. Was there any trouble with the investing public when the bank was started?—The amount of deposits they were able to get was very disappointing.

6553. *Chairman*: You say that Government guarantee of interest, Government loans, and Government subscription of shares are essential in the early stages?—I would like to withdraw the reference to Government subscription.

In the first place, would you kindly give the Committee a definite idea of the period during which these means of initial encouragement would be needed?—I would fix it for at least a period of 10 years.

6554. *Mr. Devadhar*: It has been advocated that Industrial Banks should be started on a large scale to finance industries with assistance from Government. Are you in favour of having something like a co-operative industrial bank for the purpose of promoting cottage industries with some subvention from Government?—In my opinion the existing financing agencies in the country can be utilised for financing cottage industries with some assistance from Government.

6555. Otherwise, you think, the Industrial Banks will not deal with cottage industries?—I do not contemplate it.

6556. *Chairman*: Would the Government guarantee of interest apply to share capital only or would it apply to debentures as well if any, issued by the industrial banks?—I should prefer to have it applied to both debentures and the capital raised by the Industrial Banks.

6557. What would be the amount of Government loans required, say annually, and at what rate of interest would they be guaranteed?—With regard to the first part of the question it is rather difficult to estimate what the amount of Government help these Industrial Banks would require for carrying on their business. It will depend upon the kind of industries that are to be financed and the number of industries that the banks finance. I am therefore unable to make any definite budget for them.

6558. What rate of interest will you fix?—One per cent. below the bank rate with a maximum not exceeding 5 per cent.

6559. So, there again, you propose that there should be some form of help from Government?—Yes.

6560. You say that Reserve Funds of Foreign Insurance Companies, foreign banks, etc., should be made available for industries through industrial banks. Is it your intention that these institutions should be required by law to invest a portion of their funds in industrial bank shares or debentures in the list of trustee securities and provide by law that the institutions mentioned should invest a portion of their funds in trustee securities?—I would be satisfied with the latter portion of the question that debentures or shares on which interest has been guaranteed by Government should be made trustee securities.

6561. *Mr. Khaitan*: Supposing foreign insurance companies do not invest in the shares or debentures even if they are declared to be trustee companies, would you compel them by legislation to invest a certain portion of their funds in trustee securities?—Yes. Once these securities are made trustee securities, it should be compulsory for all insurance companies, both national and foreign, to invest at least a part of their funds in such securities?

6562. *Chairman*: Would you like to have legislative provision made for it?—I would prefer to have it.

6563. *Chairman*: You say that industrial banks should either have branches all over the country or have systematic dealings with commercial

banks so that the facility of supply of advances on raw materials, etc., up to the stage of the finished article can be fully utilised with perfect security. I take it that your point is that the funds of the industrial banks should be fully employed and that in every case the industrial banks should, to ensure safety of their funds, have full knowledge of the operations of concerns to which advances are given?—That is the main idea. I wish to make one suggestion in this connection. Suppose there is an industrial bank in the city of Madras with no branches in the mofussil and an industrialist at Coimbatore requires financial assistance to be made to him. If the industrial bank is prepared to advance, say, Rs. 50,000 to the industrialist at Coimbatore, the cheques he may issue on the industrial bank should be made cashable at the joint stock bank at Coimbatore under proper arrangements.

6564. But would not that arise automatically when the industrial bank becomes a member of the Clearing House?—It will be a member of the Clearing House in the city, but the industrialist who wants the money would be far away at a mofussil station.

6565. I take it therefore that where the Industrial Bank has no branch, it will use a commercial bank, if any, that exists at the place as an agent for carrying on its operations?—That is what I mentioned previously.

6566. You say that industrial banks among others may also open current accounts and employ the funds in agricultural industries in which a quick turnover is a definite feature. Could you kindly tell the Committee the names of some industries of the kind you refer to?—The industries I have in mind are dairy-farming, paddy-husking, ground-nut, decortication, fruit-canning, oil-crushing and certain other industries of that type.

6567. Do you not want these to be included in the category of cottage industries, the financing of which according to a previous answer given by you should be left to co-operative banks?—It will depend upon the size of the industry. Take dairy-farming; if a man keeps a couple of cows and two buffaloes and does dairying on his own hook, it can be treated as a cottage industry, but if it is done on a large scale, I do not think it can be called a cottage industry.

6568. You say that the Imperial Bank rate is not a barometer of the monetary conditions of the market and that there is a great variation in rates from one institution to another. Taking first the Imperial Bank rate, is it not the rate at which the Imperial Bank ordinarily advances money against Government securities?—The bank rate is with reference to advances made upon Government securities.

6569. Turning next to Exchange banks, I understand that the rate of interest for loans granted by these banks against approved security is usually 1 per cent. over the Imperial Bank rate. There is therefore only a fixed variation between the Exchange banks' rate and the Imperial Bank rate. Do you agree?—I agree that there is co-ordination.

6570. As regards the joint stock banks, even a small bank like the Andhra Bank with a capital of about 5 lakhs told us in their evidence the other day that their rate of advances was 1½ per cent. over the Imperial Bank rate subject to a minimum of 7 per cent. I gather that other joint stock banks also follow the Imperial Bank rate, with a difference of ½ per cent., 1 per cent., etc. Do you therefore agree that so far as the joint stock banks are concerned, they also follow the Imperial Bank rate?—As categorically stated here, it is correct.

6571. Turning now to indigenous bankers, I shall for the present confine myself to the Chettiyars, the Multanis and the Marwaris mentioned in the Madras Committee's report. I think they are all indigenous bankers?—There are the Kalladakurichi Brahmins also.

6572. The Madras Committee say that the Chettiyar's lending rates depend upon the amount lent on security and vary commonly from 9 to 12 per cent. for first class mortgages in towns and in villages about 3 per cent. higher and that clean loans are 9 to 15 per cent. in towns and up to 18 per cent. in villages. The Multanis do the best of their business at rates varying from 9 to 13 per cent. and also lend up to 18 per cent. in small loans on weak security. The Marwaris are said to lend at rates varying from 9 to 12 per cent. ordinarily on mortgages and 12 to 15 per cent. on produce and 12 to 18 per cent. on promissory notes. Of these three classes of bankers, the Madras Committee report that the Chettiyars, in addition to receiving deposits at much higher rates than those given by joint stock banks, borrow from the Imperial Bank on joint signature usually at 1 per cent. above the bank rate in Madras. It is said that Multanis obtain deposits at comparatively low rates and in addition borrow at the bank rate from the joint stock banks, chiefly the Imperial Bank, the Indian Bank and the Exchange banks. The Marwaris, it is stated, have at their back the accumulated funds of the community, ordinarily at a low rate, and do not borrow on a large scale from other banks nor obtain much by local deposits. It is, therefore, these indigenous bankers that do not exactly follow the Imperial Bank rate. Would you kindly tell the Committee (*a*) what the difference between the lending rates of these bankers and the Imperial Bank rate is due to, (*b*) whether the rates charged by these indigenous bankers can be made to follow the Imperial Bank rate and (*c*) what steps you would suggest for bringing this about?—By saying that "the bank rate in India is not a barometer of the monetary conditions of the market at all times" I mean that the bank rate itself is not an index to show the rate that is to be charged upon demand for money in the market, as generally it may not be fixed according to demands that arise in the money market.

6573. You have not put it here from that point of view. There is the sentence "there is therefore a great variation in rates from one institution to another."—The rates may have a relation to the bank rate, in the case of the Exchange Banks and Indian joint stock banks. But often times, it is found that when the bank rate is raised, funds in the market are plentiful and unlendable even at very low rates, for example, on 31st October 1929, the rate was raised to 7 per cent. when money could not be lent at 2 per cent. Easy money prevailed till the end of 1929 although the bank rate was 7 per cent.

6574. I pointed out to you that the exchange banks and Indian joint stock banks follow the Imperial Bank's rate; therefore to that extent, that statement is not correct. Then we come to the various classes of indigenous bankers and in their case, undoubtedly, there is a great difference between the rates charged by them and the Imperial Bank's rate, and on that I have put to you three questions?—The difference between the lending rates of the indigenous banker and the Imperial Bank is due mainly to want of free accommodation to merchants by both the Imperial Bank and the joint stock banks.

6575. We know that in some cases the rates charged do to some extent bear a relationship, but is not the main reason the nature of the

security?—That is one of the salient reasons. Even on first class securities merchants who are unable to obtain any accommodation either from the Imperial Bank or from joint stock banks have, willy-nilly, to go to private bankers to keep their business going and borrow at high rates.

6576. But on first class securities are the rates charged materially higher than the Imperial Bank rate?—Even on good securities the rates charged by indigenous bankers are substantially higher.

6577. *Mr. Manu Subedar*: When the flow of credit is facilitated by the establishment of a joint stock branch or an Imperial Bank branch at a particular mofussil centre, do not the rates come down, the securities remaining the same?—The tendency is for the rates to come down.

6578. Therefore, if there was a closer linking up and wider structure of credit, the rates would come down?—They ought to.

6579. *Dr. Hyder*: Am I to understand from your answer that the one remedy to bring down the high rates of interest charged by indigenous bankers is the establishment of more branches of joint stock banks and other banks in those places?—That would make credit more easily available to the merchant.

6580. *Chairman*: If the only remedy you can suggest is the establishment of more branches of joint stock banks or of the Imperial Bank, then we need not pursue the question. But if you have other remedies to suggest, will you please let us have them?—If credit facilities are made easier, then the tendency is for the rates to go down.

6581. How would you make the credit facilities easier?—They will become easier when there is a large amount of capital available in the hands of bankers.

6582. Is it your position then that the indigenous banker, whether he is a Multani or Chettiyar, charges a high rate of interest because the capital in his possession is limited?—It is limited and to supplement it he generally goes to the Imperial Bank and other joint stock banks.

6583. Are not these Chettiyar firms investing the bulk of their capital outside the Madras Presidency?—Yes, they invest a good portion of it outside India.

6584. From the reports of the Provincial Banking Enquiry Committees of Burma and Madras, I have gathered the impression that not only a small fraction of their capital is invested in other Presidencies, but also a substantially large portion of it is being invested in Burma, in the Federated Malay States, the Straits Settlements and as far east as French Indo-China. That does not indicate a dearth of capital?—There is dearth of capital in the country and by the provision of additional capital, credit facilities to the merchant will become easier.

6585. Your position is that, quite apart from the institution of more branches of the Imperial Bank or other joint stock banks, if by some means or other the capital available to the indigenous bankers could be increased, the rate of interest would go down automatically?—My submission is that there is a dearth of capital in the mofussil centres for merchants and tradesmen and that arrangements must be made to increase the amount of capital.

6586. Assuming that there is this dearth of capital and supposing it were possible to take steps by which the capital in the hands of indigenous bankers could be increased, would that by itself lead to a reduction in the rate of interest charged by them?—It may.

6587. But would it?—I cannot give a definite answer.

6588. *Mr. Devadhar*: Would it not come down with the expansion of the co-operative movement?

6589. *Chairman*: When you gave evidence the other day before us, you suggested that action should be taken by law to fix the rate of interest to be charged by an indigenous banker on his advances. If the remedy, as you now say, is to make more capital available to them and then if the rate of interest would go down automatically, the other remedy is not necessary.

6590. *Mr. Jamal Mohamed*: Suppose there are places where facilities are not available from the Imperial Bank and other joint stock banks, and the indigenous banker had a monopoly of the business, do you think the rates of the indigenous bankers would go down if credit facilities were available easily and extensively from the Imperial Bank and other joint stock banks?—Quite so.

6591. You want more financial facilities, not for the indigenous banker as for the merchant who goes to the Imperial Bank and other joint stock banks?—That was my answer.

6592 *Chairman*: Then there was the additional point which I put to you, and I was trying to find out what the substance of that point was.

6593. Coming to the last link in the chain of the financial organisation in India, namely the moneylenders, you are no doubt aware that the reasons for the high rate of interest are many, such as the illiteracy of the borrower, the absence of any distinction between short and long term loans, the indebtedness of the agriculturist, etc., and that it is therefore difficult to make the rates paid by the cultivator follow the Imperial Bank rate without taking steps to deal with every one of the several defects in the existing system of rural finance?—These are so many causes which put up the rate.

6594. You say that the Association of the Exchange banks can easily screw up the rate as they command a good portion of loanable funds. You are aware that the Bank rate in India is fixed by the Imperial Bank of India and that the Exchange Banks' Association has no voice in the matter. Would you therefore kindly explain what you mean and give any concrete instances in which the Association of Exchange Banks have screwed up the rate?—The whole idea conveyed by this statement is that the Exchange banks have a large monopoly of loanable funds in this country, that they are also able to get funds from abroad at cheap rates of interest and that they are thus in a position to lend at low rates. But they keep a high margin of profit for themselves and lend with reference to the Imperial Bank rate. I contend that it is possible for them to lend money at much lower rates than the Imperial Bank rate.

6595. Your proposition is that, owing to the resources at their disposal, they are in a position to lend money at lower rates than the Imperial Bank. By 'screwing up', you refer to the fact that actually they maintain the Imperial Bank rate?—Yes.

6596. *Mr. Manu Subedar*: Is it your suggestion that deposits are largely concentrated in these exchange banks at the centre, that money is thus depleted from districts and that the rates in districts are thus raised?—Yes.

6597. Is it not the position at present that indigenous bankers are largely dealing with their own capital and with probably small additions and deposits which they are able to get in some cases?—Yes.

6598. They supplement their funds by the Imperial Bank advances or discounts of hundis, but these limits of hundis at present fixed by the Imperial Bank are extremely small for each individual class of banker?—Yes.

6599. They do not extend facilities to some indigenous bankers at all?—No.

6600. Therefore the element of credit in the dealings of the indigenous banker at present is extremely small?—Yes.

6601. If, therefore, the indigenous banker was enabled to get a larger amount of re-discounting facilities and thus raise money on his own credit, his total available working capital would be largely increased?—Quite so.

6602. If that is increased, would the rates of interest come down in the districts?—It is likely.

6603. *Mr. Jamal Mohamed*: Suppose the exchange banks get money abroad at 3 per cent., they can afford to lend it here at 5 per cent., but instead of that they keep a large margin for themselves and lend at 6 per cent. Naturally it has an influence on the money market and it brings down the rate. You call it screwing up the rate?—Quite.

6604. *Chairman*: Have you any definite information on this or are these your impressions?—They are impressions gathered from talks with members of the Chamber.

6605. When money rates are high in India and low in England, do not the banks in India, including the exchange banks, bring out money from England?—The Exchange banks do get money from England when the rate in England is low, but those funds are not available to other banks.

6606. I put the words "including the exchange banks" deliberately, because a prominent Indian banker told us the other day that he also does the same thing?—That may have been a special case.

6607. *Mr. Manu Subedar*: The Chairman of the Lloyds Bank in the United Kingdom, speaking of the London money market, said the other day that no funds were taken from the London money market, so far as his bank was concerned, for use in India, but that it was Indian funds which were supplying all the advances made in India. If that was so, there is no question of the exchange banks bringing out large funds here from London, but the suggestion has been made the other way, *viz.*, that they take large deposits in this country and use them not merely for making Indian advances, but for making advances between here and Hongkong and the East. Have you any definite information that exchange banks do actually bring out funds from England to India for investment in India, *i.e.*, for making advances?—Occasionally it may so happen that the funds in their hands are not found sufficient to carry on their business and they have to depend upon English funds.

6608. Have you any specific information on the point?—No.

6609. Do you not think that the Exchange Banks are also utilising the funds that they are able to raise in this country abroad during the slack season?—That is also possible. That is only our general impression but we have no definite information.

6610. *Chairman*: You have pointed out various difficulties in the way of industrial enterprises, namely, that Government are not actively sympathetic towards the promotion of indigenous industries, that the public are uneducated in the technique of investments and that industrial life is only just commencing. In view of these difficulties, do you think that the establishment of industrial banks is likely to meet with success?—That exactly is the reason why industrial banks have got to be started.

6611. Who will provide the capital?—In spite of the other difficulties, we think a certain amount of help will be forthcoming from the State.

6612. It is quite possible that Government may be quite unsympathetic as you yourself say, even if this Committee made a recommendation to that effect. Leaving that question aside, you do not however intend that it should be a State Bank?—No.

6613. You do not want the State even to purchase shares and that being the case do you not think that the popularity of the concern is liable to be interfered with and do you not anticipate difficulties in the matter of raising its working capital?—The fact that there is a guarantee of interest on debentures by Government will be sufficient to attract capital from the public for these industrial banks.

6614. You say that industries can inspire confidence only if the tariff is sufficiently high to protect them. What will be your answer to the critic who says that the public will have confidence in those industries only which are suited to the present conditions of the country and which are well conducted and that industries which do not satisfy these requirements cannot command confidence even though they may be protected by a high tariff wall, as they could never be a success?—I shall be thankful if you will kindly explain to me the import contained in the latter portion of the question "that the public will have confidence in those industries only which are suited to the present conditions of the country, etc.".

6615. The intention of that is that the product of the industries will be in demand and not fall in market value.—My contention is that so long as tariff regulation is available, sufficient capital will be forthcoming for such industries.

6616. Even if there is not any outlay for the industries?—I have in view the textile industry. If this industry is properly protected by tariff regulations, there will be better field for that. So also the oil crushing industry, paints and varnishes, dyes, colours, etc., etc.

6617. I understood you to mean that there should be an arrangement for fostering and not limiting the industry?—The country is large enough to absorb the products of both the hand-loom and the mill industry, in the case of textile industry.

6618. Will the tariff itself help these textile mills to grow up?—I think so.

6619. That is your deliberate opinion even after reviewing the present condition of the country?—The present conditions in India are exceptional. I only speak of general conditions.

6620. *Mr. Manu Subedar*: You say in your memorandum that Government are not actively sympathetic towards the promotion of indigenous industries. I suppose you refer there not merely to tariffs or to financial facilities, or to the purchasing of the output of the industries or railway rates, but that you refer to the conglomeration of all these put together?—Yes.

6621. Even when the raw material is there and the necessary capital is there and there are enterprising people willing to shoulder the development of the industry, Government mostly stand aside and if the industry could be saved by timely assistance, even then Government is loathe to come to the rescue. Is that what you mean?—Quite so.

6622. So then you agree that if Government rendered proper assistance that would bring greater confidence to the investing public. Is that so? —Yes.

6623. You say that Government are not actively sympathetic towards the promotion of indigenous industries and that industries can inspire confidence only if the tariff is sufficiently high to protect them. Supposing that there is no change in the policy of Government, would you still advocate the establishment of an industrial bank?—Yes, I would advocate the establishment of an industrial bank even without any Government help.

6624. You refer to an Industrial Bank in each province federated to an all-India institution. Would you kindly explain a little more fully the nature and functions of the all-India institution to which the provincial industrial banks should be federated?—My idea in referring to the federation of provincial banks and an all-India federation is for this purpose, that the growth of industries in different provinces attains different heights and it may be necessary to mobilise funds for the respective provincial industrial banks and to control the distribution of those funds to these provincial banks an all-India federation is necessary.

6625. Your idea is to have an all-India federation for the raising of capital?—Yes.

6626. *Mr. Khaitan*: Provincial banks will exist in each province. Then there is to be an all-India institution to which these provincial banks will be affiliated?

6627. Would that all-India institution have its own share capital?— As it has got to provide funds, it must have its own capital.

6628. *Chairman*: What do you want this all-India institution to do?— It will have to help in the mobilisation of capital for helping these provincial banks by bringing them prominently to the notice of the public.

6629. How will it raise funds?—With an influential board it will be able to raise funds.

6630. Do you mean to say that the all-India body will do the advertising and the propaganda part of it for furthering the interests of these provincial banks?—Yes, for drawing in capitalists to invest funds.

6631. *Mr. Khaitan*: The All-India Board according to you cannot issue debentures, has no shares to offer to the public, cannot accept deposit or current accounts, how then is it that you contemplate that it will be able to raise funds?—By propaganda and by advising the public to invest in the provincial banks.

6632. *Mr. Manu Subedar*: Is it also your point that the all-India Board will exercise judicious discretion in directing and controlling the activities of provincial banks with a view to avoiding over-production in regard to the various industries and such other matters?—Yes, the Board

should have control over the provincial banks. Representatives of the provincial banks will be on the all-India Board and they will be invested with such powers.

6633. You will give them the power of supervising and control?—Yes.

6634. *Mr. Khaitan*: Would the all-India body have the right of veto? —Veto in regard to what?

6635. *Chairman*: Supposing your provincial bank in Madras decides on the establishment of a cotton textile mill in Coimbatore. I want to know whether you will vest the power of vetoing this suggestion in the hands of the all-India Board?—Yes, that will have to be finally decided by the all-India Board.

6636. Then is it your suggestion that every proposition must be sent to the all-India Board for consideration by the provincial bank before a loan is granted?—It will be safe if that can be done.

6637. *Mr. Manu Subedar*: The elimination process can first be done by the provincial bank and the provincial banks themselves can, on the merits of each case deal with smaller propositions. Would you agree to that suggestion?—The general principles can be laid down by the Central Board and only large propositions need go before the Central Board for sanction.

6638. *Chairman*: Will any portion of the capital of the provincial bank be raised by the provincial board independently of the central board?— The idea is that the provincial bank should be permitted to collect as much capital as it can do so locally and the balance could be found by the Federal Board.

6639. Therefore, your idea is that the Central Federal Board's function is to supply additional capital and it is in that connection that the Federal Board should work?—Yes.

6640. Then you contemplate the provincial bank will raise its capital as much as possible independently and then the all-India institution will again raise capital on the provincial basis for that particular bank. Is that so?—Yes.

6641. So far as this Committee is concerned, various views have been placed before us, some witnesses favouring only an all-India institution while others recommend the formation of provincial banks. So it is that we want to know definitely your Chamber's recommendations in regard to this matter. So far we have obtained from you this information that each Provincial Bank will raise its own capital up to a certain stage without the help of the all-India institution. Is it part of your scheme that this all-India institution will raise its additional capital to feed the provincial banks?—Yes.

6642. On what security?—On the security of the assets of the provincial institutions.

6643. Will the all-India institution raise additional capital on the security of all provincial banks taken together or of individual banks separately?—It must be with reference to each individual provincial bank.

6644. Therefore, while confining ourselves to Madras, this all-India institution will raise additional capital all over India specially earmarked

for the province of Madras and which the former considers satisfactory?—Yes, our view is that the all-India Board will be in a position to obtain funds through their influence from other parts of the country.

6645. *Mr. Jamal Mohammad*: You also contemplate getting large sums of money from Government as loan without interest or at a low rate of interest for these industrial banks?—Yes.

6646. Then although each province may think that its claim is foremost, one province may be more important from the point of view of an industry while the other may be a little less important, you want the Central Board to distribute the funds according to the needs of requirements of the various provinces. Your idea is that the Central Board being a detached body will be able to impartially decide the requirements of the various provinces?—That is so.

6647. One province may be more important than another from the industrial point of view and therefore your view is that the Central Board should not only decide the policy but should also distribute the funds according to the needs of various provinces in the country?—Yes.

6648. *Chairman*: Therefore, to that extent you modify what you told us a little while ago?—Yes.

6649. Supposing the provincial bank manages to raise funds from outside its own province as well without the help of the Central Board, then would you give the former the final voice in the matter of investing the money?—These are all matters of detail which can be inquired into.

6650. *Mr. Ramdas Pantulu*: Supposing in a particular province one of the industries occupies an important place and if there is a depression in that industry (such as the cotton industry in Bombay at present), will the provincial bank be not hit by any depression in that industry, a depression which is likely to depreciate its debentures and shares?

6651. *Chairman*: According to his scheme it is the shares that are raised by the Provincial Bank and not the debentures that are raised by the all-India Central Bank. The depression is not expected to continue eternally. Any trade in the case of which there is some temporary depression at present is likely to revive after some time.

6652. Is it possible to gauge the period of depression in an industry?—That will depend on the nature of each individual industry.

6653. You admit that there must be proper security for these debentures which the All-India Institute issues and out of which it supplies funds?—There must be proper security behind the Government loans which are made to these institutions.

6654. On what security will the Provincial Industrial Bank be advancing money to industrial concerns?—All that I can say is that there must be adequate security.

6655. *Chairman*: You say that for the sake of security to its investments, the supervision of industries by one of its officers will be unobjectionable. Would you kindly tell the Committee what kind of supervision you have in view and whether one officer will possess the technical knowledge required for the supervision of all the industries with which the industrial bank will have business relations? Now that you have explained your scheme more fully, *viz.*, that the operations of the All-India

Institution will cover all sorts of industries in the province, that makes it all the more necessary for me to know your views on this question. If, however, you have not thought about the matter I will drop it. (No answer.) Supervision as to financial standing, stock, relations to the markets, borrowing elsewhere, etc.

6656. In view of the assistance which you propose that Government should render to the industrial banks, namely, guarantee of interest, loans and subscription for shares, would you provide for the exercise of adequate control by the Government on the activities of the industrial banks?—It is with that idea that I suggested that there must be supervision by technical officers in the affairs of these industrial banks. A technical officer is not the right sort of person who can control the interest of Government, *i.e.*, the tax-payer, in a huge concern of the magnitude which you have now placed before us.

6657. *Dr. Hyder*: Do you mean technical officer or financial officer?

Witness (in answer to Chairman): Government will have to guarantee interest on the private shares, they will have to guarantee interest on the debentures, they will have to advance large sums of money. These shares and debentures of the Industrial Banks should be declared to be trustee securities by legislative enactments and certain institutions like the foreign banks and insurance companies should be compelled by legislation to invest a portion of their funds in these trustee securities. All these will involve large responsibilities on Government.

6658. What would you provide as adequate control on the activities of these Industrial Banks? If you have not thought of that, you can say so.—Control on the proportion of cash to liabilities, soundness of investments, general management, etc. If there is any lapse, a threat of reducing Government assistance ought to suffice.

6659. *Chairman*: You say that foreign trade is well financed by the exchange banks. I take it, therefore, that the financial facilities required by exporters and importers, whether Indian or non-Indian, are fully supplied at reasonable rates by the exchange banks?—It does not necessarily follow from the statement made that facilities required by exporters and importers, both Indian and non-Indian, have been provided by exchange banks.

6660. Your point is then that Indians do not receive proper facilities? —That is my point.

6661. I take it, therefore, that when you refer to Indian exporters being encouraged, by means of restrictions on the operations of the present exchange banks and by allowing the Imperial Bank to open exchange business, you want really to secure more favourable terms to the Indian exporter than to the non-Indian exporter?—Yes, that is the position.

6662. *Mr. Manu Subedar*: At present there are no Indian banks doing exchange business?—No.

6663. You are speaking in your representative capacity but you are also an experienced banker. So you can say whether it would be easy to bring into existence an Indian bank doing exchange business?—Under present conditions, it would be very difficult.

6664. A large amount of deposits which the exchange banks hold are from the Indian public. Is it not?—Yes.

6665. And the use of those deposits is not available to the Indian business men?—No.

6666. Therefore, you would like something to be done by which these funds can be made available to Indians?—Yes.

6667. *Dr. Hyder*: You have said in para. 1 of Section II of your memorandum "the exchange banks are at present in a position to discriminate not only between exporter and exporter but between article and article and between destination and destination". Can you explain this to us more fully?—What I mean by that statement is that greater facilities are available for non-national business men at the hands of the exchange banks. When I said between exporter and exporter I make a distinction between Indian exporter and foreign exporter.

6668. What are those facilities to which you have been referring?—Facilities in the matter of discounting export bills.

6669. Is it your view that all bills of Indians are discounted at higher rates?—The Indian exporters are unable to get favourable terms for their bills.

6670. How do you distinguish one article from another article?—I mean raw materials as distinct from manufactured goods.

6671. *Dr. Hyder*: Your view is that exchange banks use discrimination in making money?—Yes, because there is no fear of their funds remaining unemployed thereby.

6672. Is that a fair business proposition?—That is my impression.

6673. The exchange banks are there for the sake of profit, not for love?—They are there for the sake of profit, and they are in a position to dictate and enforce.

6674. If they get their profit from manufactured articles, how can you say that they run away from the profits?—I say that sufficient facilities are not offered; it may be that in certain cases they allow bills to be discounted, but generally Indian manufactured goods do not get that amount of facility which they ought to.

6675. What exactly do you mean when you say that they are in a position to discriminate between destination and destination?—They discriminate whether the place to which the export is sent is England or some foreign country.

6676. Is it not that really it is merely a fine rounding of the sentence rather than a fact?—I do not think so.

6677. *Mr. Buckley*: Would your Chamber kindly favour the Committee with specific instances to substantiate those three statements, *viz.*, that exchange banks discriminate between exporter and exporter, between article and article and between destination and destination?—I shall try to.

6678. *Chairman*: Will you please send us a statement giving specific cases of the discrimination in these three classes of cases? I can assure you that the information will be treated as confidential.—Yes.

6679. You suggest that the stamp duty should be abolished in the case of three months' bills and reduced by one-half in other cases. The Madras Committee, however, recommend that the duty should be reduced by one-half in all cases and do not see any reason why bills for different terms of usance should be taxed at different rates. Would you kindly tell the Committee your reasons for making a difference between bills for

three months usance and other bills?—The reason for this is that the large majority of bills that are drawn are for short periods of 3 months usance, but I think my Chamber would be agreeable to the recommendation made by the Madras Provincial Banking Enquiry Committee not to make any difference between one class and another class of usance bills.

6680. You say that Port Trust warehousing is primarily for export goods and that there is no system of raising money on Port Trust warehouse receipts, which is a serious handicap to trade and commerce. I should like you to make your point a little more clear by taking, for example, the case of ground nuts. I gather from the Madras Committee's report that when the ground nuts come to the ports, they are already paid for by the exporting firms in most cases and that the exporting firm is able to get advances from an exchange bank on the credit of the shipping documents and that in certain cases where the exporting firm's credit is strong, the advances are also got on clean bills. Would you kindly tell me what further facilities are required?—I do not refer mainly to the ground nut export trade, but there are other commodities that are being exported from Madras.

6681. I gave you one instance taken from the Madras Committee's report. Would you admit that the facts in that instance are as I have stated?—That to a large extent is correct. Barring the English mercantile houses who get clean credit from exchange banks, there are other merchants who also export ground nuts, but to them the provision of warehousing and getting a warehouse receipt upon which they could raise further credit would be a great help.

6682. The point is that there are non-Indian exporting firms and Indian exporting firms?—Yes.

6683. Could you give us one or two big Indian exporting firms doing a substantial amount of this business?—There is a firm called K. C. Jayarama Reddy & Co. who export ground nuts abroad.

6684. Where are their headquarters?—Madras itself.

6685. *Mr. Ramdas Pantulu*: Do not Messrs. C. K. Narayana Ayyar and Sons, do this business?—They are not in business now.

6686. *Mr. Buckley*: Did not Messrs. C. K. Narayana Ayyar and Sons get any facilities from exchange banks?—They did have facilities for a considerable time.

6687. May I tell you that they had considerable facilities?—I am not disputing that.

6688. *Chairman*: You admit that when they were in business they were getting considerable facilities from exchange banks?—Yes, but the Exchange Bank suddenly lost confidence in them.

6689. Are not Messrs. Reddy and Company getting any facilities from exchange banks, or are they getting any?—I am not quite sure whether they are getting facilities beyond a stipulated point.

6690. I should like to know precisely what your answer is. Are they getting facilities or have you no information?—I have no information.

6691. Therefore, so far as the ground nut trade is concerned, you cannot produce any concrete instance to establish that exchange banks deal differently with Indian exporting firms as compared to non-Indian exporting firms?—My statement was a general one.

6692. Therefore you cannot give any instance in regard to the ground nut trade.—Not at present.

6693. You mentioned Messrs. Reddy and Company. The Committee will be obliged if, when you get back to Madras, you will make enquiries from the firm and let us know whether they are getting any facilities from exchange banks? This information will also be treated as confidential.—Yes.

6694. Coming to other trades, can you give us any specific case?—There is the trade in hides and skins which is very largely done. In this case most of the goods come into the Madras port from mofussil stations and a provision of warehouse in the export market and issue of receipts would help traders to raise credit on those warehouse receipts.

6695. As it is, in regard to hides and skins, are not there warehousing facilities at present?—There are some godowns belonging to private merchants.

6696. And are not these facilities adequate?—No.

6697. To the extent that there are facilities, do the exchange banks not give proper credit facilities on the warehouse receipts?—There are no warehouse receipts issued at all; the goods are in private godowns.

6698. And the private godowns do not issue warehouse receipts?—Their warehouse receipts are not negotiable.

6699. Do they or do they not issue receipts? There are two aspects of it, they may not be issuing receipts, or they may be issuing receipts but the exchange banks may not attach any value to them. I was trying to find out the present position?—I have no information whether these godowns are issuing any warehouse receipts.

6700. *Mr. Jamal Mohammed*: Referring to the ground nut trade, is it not a fact that some of the ground nuts which come to Madras are brought there after having been bought by the export houses?—Yes.

6701. It is because the producers up-country have not got facilities at Madras to store them that many a time they are obliged to sell them beforehand. Is it not for the benefit of the producers of ground nuts that you are advocating the establishment of warehouses and issue of warehouse receipts, so that they can have better facilities in raising money?—Yes.

6702. As regards hides and skins again, is it not a fact that at present private godowns store them and there is no warehouse receipt which a banker would recognise?—Yes.

6703. You would admit that if a public warehouse were in existence it would give facilities for goods to be stored and while the articles are awaiting shipment, the producer or owner could take his own time to raise money on the receipt obtained?—Yes.

6704. *Chairman*: From your answer to Mr. Jamal Mohamed, I gather that this part of your answer refers not to warehousing at the ports. but to warehousing in the mofussil.. Is that really the position?—It applies to both.

6705. The reply in your memorandum refers to accommodation at the ports. There is nothing there as regards the mofussil and the question itself does not refer to the mofussil. You will find that the section itself refers to the financing of foreign trade and not to internal trade. I suggest

to you that it refers to facilities at ports only.—The question refers to the present practice at ports.

6706. *Mr. Manu Subedar*: With reference to the difficulties of the Indian exporter in reference to exchange banks, the Chairman asked you about the cases of people who are in the export trade and are not getting facilities. I shall put to you the experience at other ports. It happens that merchants dealing in a certain commodity in a large way extend their business and then they find that if they export direct and find a buyer in Europe, they would make more money. So they make this arrangement, but when they go to the exchange bank, they are told that unless the European merchant opens a confirmed credit they would not discount his bills, but only take the bills for collection, with the result that if a merchant is discouraged in this way once or twice, he stops doing direct export business. There are a large number of people who have attempted direct export business and stopped it, they do not continue in the absence of facility and therefore the number of cases of merchants who are actually in the export trade and who are not getting facilities may not be great, but the number of merchants who have stopped direct export business on account of being discouraged in this manner is large. Is it the case in Madras?—It is so.

6707. *Chairman*: Will you kindly send us some instances of that also?—Yes.

Mr. Lamond: This has nothing to do with the lack of facilities in the market of consumption.

Mr. Manu Subedar: My point is that there are people engaged in handling commodities on a large scale up to the port and when they attempt direct export business they get out of it. There still remain large wholesale merchants in that particular commodity, but they confine their business to collecting or accumulating the material from inland and bringing it to the port.

Mr. Buckley: You are no doubt aware that it is the custom of the market in India for exporters to work on letters of credit opened by foreign buyers. That is a protection as much for the exporter as it is for the bank purchasing the bills. Mr. Jamal Mohamed will confirm that Madras is the greatest exporting port in India of hides and skins.

Mr. Jamal Mohamed: It is not from every country that you get the credits.

Mr. Buckley: After all is said and done, you must admit that a bank must have the right to say with whom it will do business and on what terms. There are, you know, good firms and there are weak firms. I put it to you that the hides and skins trade in Madras is largely in the hands of Indian exporters and that these Indian firms get advances from exchange banks against the hides and skins in spite of the fact that there is no Port Trust warehousing.

Mr. Jamal Mohamed: The foreign trade is well financed, but in certain sections of the export trade, their funds do not reach inland beyond the port of shipment.

Chairman: The witness did not adhere to that statement, he qualified it, and said that it referred to non-Indian firms but that Indian firms do not get equal facilities.

Mr. Jamal Mohamed: Mr. Buckley is referring to export houses being financed by exchange banks. In Madras we have 300 to 400 merchants

dealing in hides and skins of whom there may be a dozen who directly export; they may be financed, but what about the others who want money? They have their goods in private godowns and unless they sell their goods at the price of the buyer, they would not be able to get any help. If there was a warehouse, the goods could be stored in it and a warehouse receipt obtained which would enable them to raise money.

Mr. Buckley: What I wanted to say was that there is no discrimination on the part of the Exchange banks and the people you refer to are small dealers in hides and skins.

Mr. Jamal Mohamed: But they are the actual owners. You advance the middlemen and you are putting funds into their pockets, but the producers and owners go helpless.

Chairman: Unfortunately, the witness when he elucidated the distinction between exporter and exporter, article and article and destination and destination, referred to the Indian and non-Indian. If he had then mentioned the big houses and the small houses, the position would be entirely different. As he represents the Chamber, we have to take his statement as supplementing the Chamber's statement and it is because he said that and he made a similar statement with regard to Port Trust warehousing, that all this has arisen. He has been asked to send us confidentially cases in which this discrimination between Indian and non-Indian is taking place and it is really with reference to that that Mr. Buckley was going to ask him a question.

6708. You say that in order to prevent banking crashes, it is necessary that the banks should be required to insure their own stability with the Banks' Association. Would you kindly expand your idea and tell us how this insurance would work?—The idea underlying the statement is that in the absence of a Central Reserve Bank, which would come to the help of other banking institutions in time of need, the Banking Institutions should themselves contribute from out of their own funds to an insurance fund and when they are being threatened by a run on them, the funds available in the hands of the Association made up of contributions of the member banks may be utilised to tide over that period of run on the banks.

6709. You say that the accounts of private firms and individuals doing banking business should also be subjected to periodical examination and publication. As you know, some of the indigenous bankers and banking firms also combine trading with banking. In these cases would the examination cover both the banking and trading accounts and would the balance sheets be separate or combined for the two classes of operations?—If the examination has to proceed, both the banking account and the trading account should be examined, because from the banking account advances would have gone to the trading account, and the value of those assets have to be ascertained.

6710. But would the balance sheets be separate or combined for the two classes of operations?—It would be much better if they are kept separate.

6711. What would be the recommendation of your Chamber?—Keeping of separate balance sheets.

6712. You say that the word 'banker' should be restricted to approved bankers. Would you kindly explain what you mean by 'approved'?—We have stated that the persons who use the word 'banker' must obtain a license and that only those persons who are licensed shall be called bankers.

6713. *Chairman*: You are of the opinion that the indigenous bankers ought to take out a licence?—Yes, in my memorandum I have said that "indigenous banks should be licensed to act as acceptors or guarantors to the other banks; they will work as their agents under prescribed conditions, for the purpose of remittance, deposits collection, advances, etc.". Therefore I envisage that the indigenous bankers would be brought under a licence if a Bank Act is passed.

6714. I suppose you mean indigenous *bankers* and not *banks*?—That is so. It is only a misprint.

6715. You say that restrictions should be imposed on foreign banking concerns in India as to investment of their funds, limits of foreign exchange business, admission to the Clearing House, etc. Would you kindly tell the Committee what restrictions you propose in regard to each of the items?—With regard to deposits that they are able to attract in this country, we want that money to be utilised in this country itself. No export of capital to places outside should be permitted. With a view to promote the Indian banks taking to exchange business for the benefit of this country, the view of our Chamber is that some restrictions should be placed on the operations of the foreign exchange banks working in this country.

6716. Is it your view that a monetary limit should be laid down by law within which the totality of the exchange banks will be allowed to do the exchange business?—Yes.

6717. How would you limit their admission to the Clearing House?—I would restrict admission and admit only those banks which are registered in India in rupee capital. All other banks that are not so registered will have to clear their cheques through the national banks of the country.

6718. Your first restriction is that no portion of the money deposited with the foreign banks in India should be sent abroad and your object in so doing is that this money should be utilised in affording better facilities to trade and industry of this country and make larger capital available for the movement of crops, etc?—Yes.

6719. That being so, will you stop the Chettiyars from using abroad the capital that they get through deposits in this country?—Certainly.

6720. Would you also stop the general public from investing their monies in foreign securities, etc., thus making available such funds for the benefit of the country?—I would not place that restriction in the case of private individuals.

6721. If you do not want to restrict private investors in foreign securities from doing so, what logical reason would you have for restricting an Indian depositor who out of his own free will puts his money in an foreign exchange bank?—The amount that is invested in foreign securities is not quite so large.

6722. Is it your information that the aggregate amount that is invested outside this country by people of this country in securities is not large?—But still I would not restrict individual freedom in regard to this matter.

though I have no actual information on the point whether the aggregate amount invested in such foreign securities is large or not.

Lala Harkishen Lal (to Chairman): Would you please tell us what that amount is?

Chairman: I think it was Sir Basil Blackett who gave that information that that figure is quite a large amount, but I cannot say how much it is or whether it is correct.

6723. *Chairman* (to witness): Suppose that figure is a large figure on the aggregate, would you place the restrictions on individual members?—No, I would not.

6724. If large amounts of Indian capital were being sent out of the country for investment in foreign securities would you by legislation stop that?—I would not stop that by legislation. All I say is that it may only be a temporary phase.

6725. But you do wish to interfere with the desire of an individual bank, whether it be Indian or foreign, to invest in foreign securities?—Yes.

6726. Then in regard to the Clearing House you say that you will have no objection to banks with rupee capital and registered in India from becoming members of the Clearing House?—Yes.

6727. In regard to others you would impose a condition that they should get their cheques cashed through the Clearing House through the medium of national banks?—Yes.

6728. Would that not be again imposing a disability on the Indian customers of a foreign exchange bank? Am I not correct in understanding your idea to be that every bank should be allowed to become a member of the Clearing House so as to avoid inconvenience to the customer?—That is so.

6729. Would not some difficulty arise? Or would you think that people who still prefer to give their custom to these banks must suffer that disability?—That is exactly my point. In the interests of the country, Indian exchange banks ought to grow and in order to facilitate that growth, this temporary inconvenience ought to be put up with in the larger interests of national development.

6730. *Mr. Jamal Mohammad*: You are against the export of capital from India?—Yes.

6731. In a country like India where the industrial development is still in its infancy, your idea is to conserve all the available capital in this country and your idea is to get more capital from outside as well if that were available?—Yes.

6732. And India is, at any rate, not in the similar position of other countries where industrial development has far advanced and where they are trying to find out avenues of investment of their funds abroad?—That is so.

6733. Chairman: Supposing as an act of retalisation the foreign countries also refused to invest their funds in India as you want them to do, then what wouldhappen? —I am thinking of additional capital coming in from abroad only if it comes of its own accord. Otherwise we should be satisfied with our own capital.

6734. *Mr. Manu Subedar*: You think that by placing a restriction on the deposits of the foreign banks in this country, the funds that now go

to these banks will be made available for the growth of Indian industries and that it will go in as deposits into Indian joint stock banks, or investment in Government securities and such other institutions?—Yes.

6735. You also do so in the interests of the Indian depositors themselves, for, at present nobody knows the exact position of these foreign banks with regard to their Indian business alone, there is no audit in this country and there is absolutely no sort of Government control over them. Is it not so?—Yes.

6736. And about the restriction on the export of capital, you said that normally you do not think that such export would be considerable and therefore you would not interfere with the liberty of private investors investing their monies in foreign securities. Are you aware that in abnormal times some of the continental countries like Germany, France and even Great Britain had to place restrictions on the export of capital from their respective countries?—Yes. The country has its first claim over its own capital.

6737. Now in regard to reciprocity, I take it that you know that foreign institutions now operating in our country are doing business with Indian money rather than with imported capital into this country?—Yes.

6738. Your programme, therefore, merely means that we should better organise ourselves in this country without interference from other foreign institutions, and that there is no serious danger of retaliation from abroad? —That is so.

6739. *Chairman*: You said that if Indian depositors were prohibited from investing their funds in foreign banks, all that money would go into the Indian joint stock banks or other institutions which could be utilised for the industrial development of the country. Will not such Indian investors who deposit their funds with foreign banks at present, prefer to increase their foreign investment rather than placing their money with Indian joint stock banks in whose stability they may not be quite so certain? Secondly will not such monies go into hoards, as a gentleman who gave evidence before the Madras Banking Committee observed?—I do not anticipate such a contingency.

6740. How is it that an Indian investor prefers a foreign bank rather than an Indian joint stock bank at present?—Because there are only a few Indian joint stock banks at present.

6741. Therefore, if an Indian investor withdraws his money from a foreign exchange bank, he has to place that amount somewhere. He does not find that there are very many Indian joint stock banks that can command his confidence. Therefore, will he not try to invest his money in foreign securities on whose stability he has no doubt?—The general feeling in the country is for helping Indian indigenous banks and joint stock banks with deposits. As a matter of fact they are getting increased deposits now-a-days.

6742. That is the experience of your Chamber?—Yes.

6743. *Mr. Jamal Mohammad*: Is it not possible that because the foreign exchange banks have the monopoly in doing exchange business and practically control the foreign trade of this country both in the matter of exports and imports, Indian investors are influenced to place their money with foreign banks?—That is so.

6744. *Mr. Lamond*: What is your idea of the Bankers' Clearing House? —It is an association of bankers voluntarily arranged to facilitate cashing of cheques drawn on them and to settle one another's claims.—You can not bring in legislation and prevent two banks meeting at a common place to transact their business. It seems to me your suggestion cannot be accepted. It is interfering with the liberty of the subject.

6745. *Dr. Hyder*: You said you were agreeable to foreign capital coming into this country, if it would. Would you make your position a little more clear? In what shape will capital come in?—By foreign capital I mean foreign funds.

6746. You are anxious that this country should develop industrially?—Yes.

6747. Therefore, foreign funds will come in through capital goods or other goods, is it not?—I do not think that corollary comes out of my statement.

6748. *Chairman*: You suggest that foreign exchange banks should be asked to register their company in India and provide Local Board of Directors with 50 per cent. of the directors and shareholders being Indians. In the case of an existing bank which has already its capital in sterling and which does not require any further issues of capital, would you kindly tell the Committee how you would carry out your suggestion in practice? —If a banking law is introduced which says that banks which want to function in this country have to register themselves under Indian Law and with the rupee capital, the existing banks which have sterling capital may have to float a subsidiary company. But the difficulty can be met if the law makes it clear that concerns only with rupee capital and registered in India can carry on banking business.

6749. Is it your desire that such a law should be passed?—Yes.

6750. Could you tell the Committee particularly how you would ensure that 50 per cent. of the shares shall always remain in Indian hands? —By providing a regulation that the transfer of the shares should not be effected to persons other than nationals.

6751. So you advocate legislation?—Yes.

6752. You say that the authority to issue, renew or cancel licences should be the Banking Association or Institution. I suppose these foreign banks would also be members of the Banking Association. Do you think therefore that it is appropriate to give authority to the Bankers Association to issue, renew or cancel licences of its own members?—The Banking Association will have for its members only such banks as have registered themselves in India with rupee capital.

6753. You suggest that the authorised capital and subscribed capital and subscribed and paid-up capital should have some definite relationship. Could you tell the Committee a little more clearly what definite relationship you would propose?—I would propose that the subscribed capital should be 50 per cent. of the authorised capital and that the paid-up capital should be 50 per cent. of the subscribed capital.

6754. In addition to a definite relationship between subscribed capital and paid-up capital, are you in favour of laying down a definite minimum monetary limit for paid-up capital of banks either on a uniform basis for

all banks or on a varying basis with reference to the locality?—It must be on a varying basis with reference to the locality. You cannot have a single specific limit.

6755. You suggest that a given proportion of the annual net profits should be credited to the General Reserve. Can you tell the Committee what proportion you would propose?—I would in the first instance suggest that 15 per cent. of the profits should be credited to the reserve fund.

6756. Similarly, would you also make your proposal regarding the borrowings of the bank in relation to the paid-up capital of the bank and also the percentage of fluid resources a little more definite?—I would suggest that the borrowing of the bank in relation to their paid-up capital should not exceed 15 times their own capital.

6757. *Lala Harkishen Lal*: In England 10 per cent. is considered adequate.

6758. *Chairman*: The paid-up capital is 10 per cent. of the borrowing? —Yes, including reserve.

6759. *Mr. Ramdas Pantalu*: How much is it in the case of the co-operative bank? Is it not 10 times in the case of central banks and 12 per cent. in the case of the provincial banks?—I have not mentioned any figure about fluid resources as I have not thought about it.

6760. *Chairman*: You suggest that the balance sheets should show the advances in detail. Would you tell the Committee in what detail you would require the advances to be shown?—What I had in my mind when I suggested that was that the kind of securities on which the investments are made may be made clear in the balance-sheet.

6761. *Sir Hugh Cocke*: You would differentiate between the nature of the securities? What sort of heading would you suggest?—I have not had time to put it under different headings.

6762. *Chairman*: You say that although in a particular instance of a bank the assets even exceeded the liabilities, there was no help forthcoming for it to save it from the consequences of an unexpected run. Would you kindly give the Committee some more details of this particular instance?—I refer here to the People's Bank of India in the Punjab.

6763. You say that a kind of temporary moratorium must be permitted when weakness is suspected in a bank's condition and a proposal for amalgamation is on hand or is likely to be taken. Would you kindly tell the Committee whether you would fix any period for this temporary moratorium?—Yes Sir. I would place the powers of recommencing the temporary moratorium in the hands of the bankers and would allow them to fix the period at not more than one year.

6764. You say that foreign banks may be enjoined by statute to take Indian apprentices regularly. Would you make such a legal provision in the case of Indian joint stock banks also?—Yes. I would advocate that.

6765. Suppose no apprentices go to an institution because it is not large or well established. Could you tell me how you would deal with such a case?—I have not thought about such cases.

6766. *Chairman*: You do not want legal provision for it?—I have not thought about it.

6767. You say that indigenous banks should be licensed to act as acceptors or guarantors to the other banks. Would you kindly tell the

Committee whether by indigenous banks you are referring to the indigenous bankers, as in your previous paragraph you have said that the word 'bank' should be restricted to a joint stock concern?—Yes.

6768. Would you also kindly expand your idea and tell us in more detail the functions of these indigenous Bankers and the advantages you expect from your proposal?—The indigenous bankers are found in the country all over the places and if provision is made to accept their guarantee in the matter of banking business, it will result in a considerable extension of banking facilities in the country.

6769. Is this the only function which your Chamber desire to entrust them with? If not, what other functions you want them to perform?—I can only state in general terms that they must be brought into the regular fabric or organisation of the country.

6770. *Mr. Ramdas Pantulu*: You say that "the agricultural or land mortgage banks and industrial banks may also open current accounts whose funds can be employed in agricultural industries in which a quick turnover is a definite feature". I want to know whether you would advocate land mortgage banks to make sh rt advances and to take money on current accounts?—The sentence has been loosely worded.

6771. By 'non-credit societies' you have mainly industrial societies in view?—Yes.

6772. You are speaking of "an all-India federal organisation and depots in different centres for such non-credit societies so that their raw material and manufactured articles can be handled more economically". Do you not think that co-operative central banks and co-operative provincial banks have sufficient reserves to finance industrial societies when they are started?—I refer to organisations for raw material and for marketing the products of these non-credit societies. It is to create markets and push them.

6773. Something like the wholesale societies working for the various societies?—That is the idea.

6774. *Seth Haji Abdoola Haroon*: You say that "public warehouses should be available in the ports from which imported goods can be released piece-meal on payment to the bank concerned." By 'piece-meal' do you mean package by package?—I have in view package also.

6775. You mean you would get packages after packages released as they are required?—It may not be possible for small merchants to sell all the imported goods at a time. They have to release the goods to their retail customers only in small quantities. There must be facilities for further raising credit and releasing the goods piece-meal.

6776. In Karachi the arrangement is for merchants to keep their own godowns?—I want further facilities being created, that is all.

6777. *Mr. Jamal Mohamed*: You say that "either a branch of a joint stock bank, or a co-operative credit society or an approved indigenous banker should be available in all towns to collect hundies attached to railway receipts, etc." It was your idea that because some joint stock banks having no branches in other places may not be keen to handle business destined for other places, the trader should not suffer, but that they should either open a branch or might utilise other agencies that may be in existence?—Yes.

6778. Was it your idea to give preference to the co-operative banker or the indigenous banker over the branch of the joint stock bank?—No, that was not in my mind.

6779. Where you refer to public warehouses, I presume that it has nothing to do with the present facilities which the banks give. You are merely thinking of a future provision?—That is so.

6780. You say that "if Indian exporters are to be encouraged Indian joint stock banks should be helped to run exchange business by means of restrictions, etc." Do you think there is likely to be any difficulty in Indian joint stock banks being able to do exchange business?—No.

6781. Is there anything inherent disqualifying Indian joint stock banks or Indians to run exchange business?—I do not think there is any inherent disability in the Indian to run exchange business.

6782. Indians would be quite fit to do the business?—I should think so; there is sufficient Indian talent to carry on the exchange business.

6783. And sufficient justification for a country like India to do it?—Yes.

6784. *Chairman*: I think you said that if foreign exchange banks were got rid of, there would be no difficulty in filling up the gap?—I said there was nothing in the nature of the Indian that is inherent in him to disqualify him to carry on exchange business; there is sufficient talent in the country to work exchange banks when they come into existence.

6785. *Mr. Jadu Nath Roy*: You say that "there should be disciplinary control over all banking institutions, and even private firms and individuals doing regular banking business should be required to take out licence and their accounts should also be subjected to periodical examination and publication". Is it your intention that indigenous bankers who do not take others' money should be made to publish their accounts?—By 'banker' I mean a person who not only uses his capital, but takes others' money.

6786. You do not intend to place a restriction on those who do not take others' money?—I do not consider them as bankers.

6787. *Sir Hugh Cocke*: You have made an interesting and rather a novel suggestion that in order to prevent banking crashes it is necessary that the banks should be required to insure their own stability with the Banks Association. I do not think you developed that point. Do I take it that you mean that banks would pay a premium and get the benefit?—Each bank who is a member of the Association will pay a certain percentage out of the net profits to ensure help in times of need when, say, there are unexpected runs on the bank. This will only be a temporary provision till a Central Reserve Bank is established in the country.

6788. In return for that premium, would you expect a fixed measure of assistance, and have you any fixed figure in view?—I have not thought about any figure, I have put it in general.

6789. Do you think it a practical proposition for banks to pay a premium?—It will be a kind of reserve, a sort of contribution towards the insurance fund to be utilised whenever there is an unexpected run.

6790. You use the word 'insure'. Do you mean a deposit with the Banks Association which would come back in time of trouble or do you mean a premium on which you would get a return?—I consider it to be a premium, but there will be no return on it. It will be to safeguard

the institutions, and at one time or other the total funds may have to be utilised for one bank.

6791. In reply to the question whether there should be a minimum monetary limit for paid-up capital of banks, I think you said there should be a minimum, but you did not specify any amount?—I did.

6792. Would not your minimum be fairly high? Would you have banks started with a small paid-up capital?—I would put it at a lakh of rupees.

6793. Do you think it desirable to start a bank with a paid-up capital of only one lakh of rupees?—Yes.

6794. *Mr. Manu Subedar*: With regard to the scheme for provincial industrial banks, I would like to understand your stand-point clearly. You said that share capital should be raised in the province. Suppose a province was so backward that it was unable to raise the necessary share capital?—I would put a condition that the province shall raise the share capital before it expects help.

6795. That particular province may have enormous industrial possibilities, but its local savings not enough to give you the capital required or its local enterprise not enough to create a bank of the type required. Assuming that it was an extremely backward province, would it not be better for a branch of an all-India institution to be put there to carry on development on the scale justified by the industrial possibilities of the place?—The all-India federation I contemplate would come to the help of the industry after provincial institutions come into existence.

6796. I shall put to you the advantages of having an all-India institution. If an individual bank in a province could not be started for want of share capital, it would do away with the development in that part of the country altogether. Then there is the question of technical assistance which can be better supplied by an all-India institution. There would also be the question of uniform rates or terms of advance. An industry in Bombay, say, the cotton industry, gets 6 per cent. and its rival gets 9 per cent., it would not be a fair proposition on the same security. For all these purposes, would it not be better if an all-India institution were started, or would you rather say that so long as the needs of each individual province were fully satisfied, you would leave it to this Committee to institute a proper machinery?—I do not foresee such a long period before any territorial area will remain undeveloped without procuring the necessary capital for starting provincial banks. There may be some delay in backward areas, but in course of time I expect there would be sufficient enterprise coming forth to start such institutions, at least on the model of institutions started in other places.

6797. A provincial bank may be able to handle matters of a certain scale, but in the case of, say, kerosene, or steel manufacture, where a much larger consideration is wanted, would not an all-India institution be a better body to deal with these requirements?—The all-India federation we thought about was only a propagandist institution to whip up funds for investments in the various provincial banks and for arranging for the flotation of debentures, etc.

The Chairman thanked the witnesses and the Committee rose for the day.

TWENTY-SECOND DAY.

Saturday, the 20th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Mr. MANU SUBEDAR.
Sir HUGH COCKE, KT.
Dr. L. K. HYDER.
Mr. V. RAMDAS PANTULU.
Mr. W. LAMOND.
Lala HARKISHEN LAL.
Mr. R. W. BUCKLEY.
Mr. JADU NATH ROY.
Mr. G. K. DEVADHAR, C.I.E.
Mr. NALINI RANJAN SARKAR.
Seth Haji ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*),
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Captain Nalini Mohan Roy Choudhry and Mr. J. N. Sen Gupta, representatives of the **Bengal National Chamber of Commerce,** were examined.

6798. *Chairman*: You represent the Bengal National Chamber of Commerce?

Mr. Roy Choudhuri: Yes.

6799. How long has your Chamber been in existence?—Since 1887.

6800. What is its membership?—At present about 315.

6801. What is your position in that body?—I am a member of the Executive Committee of the Chamber and Mr. Sen Gupta is the Assistant Secretary of the Chamber.

6802. You have dealt with the requirements of the tea industry in your answer to question 1. This subject has been fully gone into by the Bengal and Assam Provincial Banking Committees and we had ourselves an opportunity to hear first-hand the case of the tea industry from a Tea Planters' Association. I shall not therefore trouble you with many questions on this subject. But I should be obliged if you would let me have information on the following point. Are the conditions to which you refer in your answer to question 1 confined to Bengal or do they also apply to Assam?—They are confined to Bengal and part of Hill Tippera, which is an Indian State.

6803. This is based, I take it, on the personal experience of tea gardens controlled by some members of the Chamber?—Yes.

6804. And the operations of these members are confined to Bengal?—Mostly Bengal.

6805. Therefore, would I be correct in assuming that the conditions you refer to also prevail in the case of tea gardens in Assam owned by Indians?—Yes, that is the position. I may inform the Committee that the gentlemen who appeared before the Provincial Banking Enquiry Committee and also before the Central Committee to give evidence on behalf of the Indian Tea Planters' Association, Jalpaiguri, are also members of our Chamber.

6806. But is this based on the experience only of the two gentlemen or of others also?—In the main our memorandum is based on information received from the gentlemen who appeared the other day before the Committee.

6807. They made it clear that the conditions you are talking of refer to gardens whose head offices are at Jalpaiguri. Are these conditions confined to those gardens or do they extend to gardens in Assam owned by Indians?—They refer also to Assam and Hill Tippera.

6808. We are not concerned with Hill Tippera, because it is in an Indian State. Have you seen the unanimous recommendations of the Bengal and Assam Committees on the subject?—Yes, we have.

6809. The Bengal Committee was wholly composed of Indians and the recommendation was unanimous and was subscribed to by a gentleman who, I understand, is a member of your Chamber?—Yes, but he gave his personal opinion and did not go there as a representative of the Chamber.

6810. Whatever is there must be the personal opinion of the member who writes the report or who subscribes to the report after having taken into consideration the facts placed before him. As regards Assam, the committee was composed largely of Indians, but I think there were one or two Europeans. I find that these difficulties were brought to the notice of the committee not only by the Indian owners of tea gardens, but also by non-Indian owners. Still after examining all the facts of the case, the committee arrived at unanimous recommendations?—At the same time, they want better facilities also.

6811. Everybody wants better facilities. That will be a matter for consideration by this Committee. I am only trying to make sure of my facts. In your memorandum you say "the existing machinery of industrial finance having failed to take care of such cases some other agency has to be devised having better equipment for more adventurous methods of investment." And you say that such agency can most fittingly be an industrial bank. Am I to understand from the words used by you that you want the industrial bank to lend money either for fixed capital or for working capital to these tea companies on security which would be unacceptable to an ordinary bank or lender, because you use the words 'more adventurous methods of investment'? At the same time I take it that it is not your intention that the method of investment should not be as safe?—By 'adventurous' we mean only sympathetic.

6812. The Assam report has examined various aspects and practically some of the propositions you put forward were also put forward before

them and they say: "We have the evidence of representatives of the Tezpur Industrial Bank and of the Dhubri Loan Office to the effect that they lend money not only for current finance, but for block capital to certain Indian tea gardens on mortgage and that in several cases not only the principal advanced but the interest remains unpaid." That shows that in all cases the security offered is not safe and it was brought out in the evidence of the gentlemen who represented the Tea Planters' Association, Jalpaiguri, that the Indian concern or semi-Indian concern who had on a previous occasion lent money to tea gardens in Jalpaiguri on certain terms are not now making advances on those terms. This is very specific, and when I read the words "more adventurous" I thought you wanted the industrial bank to make indiscriminate advances without trying to obtain adequate security. That is not your intention?—No.

6813. We have been told that some of these concerns which are in the stage of infancy and which, if they got proper capital to fully develop themselves, would pay handsome returns on the capital invested. Have they ever tried to float debentures apart from the share capital?—We do not know of any Indian company floating debentures.

6814. Referring to fairly organised middle sized industries like rice mills, oil mills, hosieries, etc., which are run by private individuals, you say that loans for meeting deficiencies in working funds are obtainable at rates varying round about 18 per cent. and that loans even on such terms are not always available readily to all the borrowers. Would you kindly explain (1) why facilities in such cases are not available from established banks; (2) why the rates of interest charged by indigenous bankers are so high; and (3) why only some borrowers are able to obtain loans even at this high rate and others are not able to get them?—There are very few Indian banks who can lend money. We have in Calcutta, for example, only two or three Indian joint stock banks, but their resources are very limited. They do not like that money should be blocked for a long time even to provide working funds. That is why industries have to pay a high rate of interest.

6815. We have been told by other witnesses that indigenous bankers often help these industrial concerns?—They do, but they charge high rates of interest.

6816. Why is the rate of interest charged so high? Is it due to the nature of the security which is offered?—The lenders do not see whether the money is used for business purposes or not; they lend only on the personal security of the borrower. Even in the case of joint stock business they take the personal guarantee of the directors.

6817. Because they consider the nature of the personal security to be such, they charge high rates of interest?—They do not take into consideration the nature of the business.

6818. Probably they do not think there is much security which the business can offer in the shape of machinery, plant, etc. We are here on the question as to why the rate of interest charged is so high?—The lender has limited resources and wants to make a great profit.

6819. It is not a question of resources. He wants to make large profits out of small sums?—There is no competition.

6820. *Mr. Sarkar*: Would I be right in saying that there is no machinery or plant or stock or other goods against which the indigenous banker can lend, and so he lends on personal security and charges a high rate of interest?—Yes. This is the position.

6821. *Mr. Devadhar*: While speaking of jute, coal and other industries, you say that most of them are being run on individual proprietary basis (which means that they are not run on a company basis), the owner bringing in his own capital for meeting the initial capital outlay, etc. Why is it not possible to have these concerns run on a corporate basis? Do you thereby want to indicate that there are not many people who have an interest in the promotion of such industries, who can rise superior to the individualistic interest and come together as a corporate body to advance the interests of the industry in a corporate capacity, which would be recognised and which would certainly be a sort of inducement for the money-lenders to lend money at a lower rate of interest?—Even to corporate bodies a high rate of interest is charged.

6822. Then it comes to this, that the money-lender has no confidence in the corporate character of the concern, but only wants to take the individual as his guarantee.—That is so.

Chairman: I only wanted to ascertain whether this position which they complain of is due to the nature of the securities offered.

6823. You say that the Imperial Bank of India, as at present constituted, cannot undertake greater responsibility with regard to the financing of industries, being debarred from making any advance for a longer period than six months. In regard to middle-sized industries, like rice mills, oil mills, etc., do you think normally they require advances for working capital for a longer period than six months?—No, they do not require more than six months' advances. They sometimes require advances for the purpose of acquiring land, purchasing machinery, for extension of their business, etc.

6824. Then you do not complain of any discrimination by the Imperial Bank towards Indian concerns as against non-Indian concerns?—We have got some complaints to make.

6825. Could you send us confidentially specific cases in which, at least in your view, this discrimination has been made?—Yes, we can.

6826. Will you please do so?—Yes.

6827. You will have to give full facts.—Yes, we shall support them with documents.

6828. *Mr. Devadhar*: You say that the only solution seems to be that a distinct type of industrial banks should be set up in all the provinces concentrating their attention mainly to the financing of established as well as new schemes of industrial enterprises. If you find that indigenous bankers or indigenous banks are not financing industrial enterprises, how would you expect any of the industrial banks to advance money to these industrial concerns?—The industrial banks will have technical experts to guide them in their operations.

6829. Is your complaint against indigenous bankers or indigenous banks as well?—Most of the indigenous banks are commercial banks and they will find it impossible to lock up their finances in long term investments.

6830. Even these commercial banks are in the habit of giving short term advances for periods of 6 months or so, is it not?—Yes.

6831. Are not these loans often extended?—That is not sufficient.

6832. What I am driving at is that before you apply for loans from the Imperial Bank or other joint stock banks, the constitution on the basis of which you approach these banks for loan must be of an approved character. Is that not so?—Certainly.

6833. And what steps would you take for that purpose?—In our scheme for the industrial bank, we have explained that.

I am talking of the present conditions and not what is going to happen?—

Chairman: I think the same feeling runs through in the reports of the Assam and Bengal Committees. Mr. Devadhar's point seems to be this. In the first place most of these industrial concerns are proprietary concerns. Then he says that as matters now stand indigenous banks or bankers are loath to provide capital on moderate rates of interest. If these facts as stated are correct, then these concerns do not get capital even from Indian joint stock banks or bankers on moderate rates of interest. The apprehension in his mind is that that state of affairs arises from the want of adequate security and his point is that until that state of affairs is improved, how can you expect even an industrial bank to advance money. In fact, it is really so to say, an amplification of the question which I put to you some time ago.

6834. *Mr. Devadhar*: You expect some sort of help from Government for these industrial banks?—Yes.

6835. Will, therefore, Government be justified in giving assistance to individuals who are running these concerns on a proprietary basis or would they be more justified in giving assistance to corporate bodies?—They would certainly be justified in giving assistance to corporate bodies.

6836. *Mr. Khaitan*: Is it not a fact that in the case of an individual proprietory concern the liability is unlimited whereas in the case of a corporate or joint stock concern the liability is limited?—Yes.

6837. Therefore, in your opinion, would there not be greater justification for the banks to lend money to individual proprietary concerns rather than to joint stock concerns?—We do not make any distinction between the two.

6838. The only distinction so far as I know why preference is given to the joint stock concerns at the present moment is that the joint stock concerns publish their properly audited balance sheets whereas the individual proprietary concerns do not do so. If the individual proprietary concerns also disclose their actual balance sheets to the lending concern, do you think there is any inherent reason why help should not be given to them as well?—They should be held on a par with other concerns.

6839. You were further asked why it is that these industries are not at present getting adequate finance and I think you said in reply that the present joint stock banks are few in number and do not have large resources and therefore did not like to advance money against block or other long term advances. As I read your memorandum, is it not your point that the finances are not satisfactory so far as the middle sized

industries rather than such big industries like, jute, coal, etc., are concerned?—That is so.

6840. In this, I believe, you are corroborated by the Bengal Report as stated in paragraphs 216 and 217 therein?—Yes.

6841. I would like to ask you one more question. What is your experience about the operations of the Imperial Bank? Do they not mostly confine their attention to the big industries irrespective of the fact whether they are under European or Indian management?—Even in the case of a big Indian jute mill, I understand the management had to force difficulties. We know at least of one instance where the Imperial Bank did not help them.

6842. I put it to you, barring possibly that single instance, the Imperial Bank gives cash credit advances to these big industries in Bengal?—Yes.

6843. As regards tea industry we have already had evidence from the Jalpaiguri Indian Tea Planters' Association. And as regards the coal industry, you say they are fortunately comparatively immune from difficulties. But may I ask, is it your experience that the Imperial Bank, as a rule, does not open cash credit accounts in respect of middle sized industries like oil-milling, rice-milling, etc.?—

Mr. Lamond: We are at present doing that sort of business.

In respect of even small oil mills?—(*Mr. Lamond*: Yes).

6844. But is it not the general impression that owing to the smallness of the dealings of these small industrial enterprises, the Imperial Bank is rather reluctant to open cash credit accounts?—That is the general impression of course.

6845. It is not possible for one bank alone to do all this financing business. Even the Imperial Bank's funds are being fully used up in such advances. However generously they treat customers, industrial financing should not be the monopoly in the hands of one bank alone. Do you agree?—We do not like that the Imperial Bank alone should be asked to finance all the industries and that is the reason why we are advocating the formation of industrial banks.

6846. As regards indigenous bankers you were asked as to why they charge high rate of interest. Perhaps you do not know what the reasons are why they charge high rates of interest. You say it is your opinion that the indigenous bankers charge a high rate of interest and you say this is not good for the prosperity of the industry and therefore there should be some institution which would adopt *adventurous* methods of investment, which you have now modified to *sympathetic* methods of investment. Is it not so?—If there is competition, interest rates can be lowered and if there is a bank financing industries alone it will be in its own interest to see what industries it should finance and so on and help them accordingly at cheaper rates.

6847. *Mr. Devadhar*: In answer to Mr. Khaitan you said that the individual proprietary concern has an unlimited liability which is of far greater advantage than advancing to a limited joint stock concern. Do you mean to say that the money-lender understands the principle of unlimited liability? Are you not aware that in the case of a joint stock concern, the money is advanced not only on the security of the joint stock concern but also on the personal security of the directors of the concern?—That is so.

6848. *Sir Hugh Cocke*: You said that the industrial bank would be better able to finance the requirements of the industries through the help of its experts. I can understand that position in regard to the starting of new industries but how will you advance the existing industries which may require further help?—They can ascertain the position and working of the concern through experts going round and having a knowledge of the position of the concern.

6849. Is this not done already by bankers who advance to existing industrial concerns?—This is done generally at present, but the industrial banks will get a better idea of the requirements of new industries if they have these experts to guide them.

6850. *Chairman*: You said that private proprietary concerns should be treated on a par with joint stock concerns?—Yes, provided the security in each case is adequate.

6851. The practice is that the personal security of the directors of a joint stock concern will be taken and there will be several of them—therefore the position is that the joint security of several persons for an advance will afford greater security for the loan than the personal unlimited security of one individual. Is that not so?—A single proprietor may sometimes be worth far more than half a dozen directors of a joint stock concern.

6852. I admit there may be such instances, but have there not been several instances where a man very high in finances a few years ago has got to a low ebb after the lapse of a few years?—That is true.

6853. Then in regard to short-term requirements, would I be correct in assuming that in the case of middle-sized industries requirements would be more for block including extensions than for working capital?—They would require both.

6854. *Chairman*: Are we confining ourselves to middle-sized industries or larger industries?—We have been referring to smaller industries though we are also concerned with larger industries.

6855. So you support what you stated in the Bengal Committee's report?—Yes.

6856. If the existing position only is taken into account?—That is so.

6857. Taking middle-sized industries, is it or is it not correct that the requirements for short-term loan are comparatively small? They are small.

6858. Therefore what is required is additional facilities for long-term advances. You have already admitted that in the case of rice-mills, the working capital required is very small?—It may be small but they require it very often.

6859. But they have got something to produce; they can get it on the hypothecation of the goods?—They are to buy raw material and sell it on credit.

6860. *Lala Harkishen Lal*: Sir, what is exactly meant by the middle-sized industry? Is it the size of the industry or the kind of the industry that we have been taking into consideration?—The nature of the industry.

6861. *Chairman*: Therefore your requirement in the case of the middle-sized industries is also for the working of short-term capital?—Yes; short-term capital.

6862. *Chairman*: You point out that with a few exceptions most industries, specially those floated on a joint-stock basis, have often a rather too meagre capital to make their loan proposals attractive to the banks. Do you agree that industrial concerns should first provide themselves with sufficient block capital before commercial banks can be asked to provide them with finance for working capital?—We agree.

6863. You suggest there should be at least one Industrial Bank in each major province. Some witnesses have pointed out that the establishment of an all-India bank, with branches in the provinces, is preferable to a system of independent provincial industrial banks as the all-India bank will be able to mobilise funds more easily and cheaply than the provincial banks. Would you kindly give the Committee your views on this suggestion?—We are in favour of establishing provincial industrial banks.

6864. You say that Government should guarantee a minimum return on the capital of industrial banks so long as the banks are not able to earn any profits. Would not such a kind of guarantee be indefinite and would it not be preferable to give this guarantee for a limited period of years in order that the industrial bank may take other steps to put itself on a self-supporting basis?—The guarantee should be limited to a certain period with regard to shares; as regards debentures, it will be for the full term for which the debentures are issued.

6865. The guarantee should then be a perpetual guarantee. Is that your intention?—Yes.

6866. Now, if it is a part of your scheme that the capital should consist of a certain amount in shares and a very large amount, *i.e.*, 10 to 15 times the first amount obtained in debentures on which Government should guarantee a prepetual rate of interest, how would it act as an incentive to the directors of the banks who represent the interest of the shareholders in employing the funds at their disposal most profitably?—We propose that there should be Government nominees on the Board of Directors.

6867. Where is the scope for the development of an incentive on the part of other directors of the bank who represent the shareholders?—They will do it from their own sense of duty.

6868. *Mr. Khaitan*: You say that Government should guarantee interest on debentures. Is that your personal opinion or is that the view of your Chamber?—It is the opinion of the Chamber.

6869. *Chairman*: You say that "the shares of the banks should be kept open for subscription for a period of six months, after which the whole of the unsold portion of the total amount issued should be taken over by the Provincial Government to be disposed of by them as and when necessary and possible." I gather that a large portion of the shares will have to be taken over by the Provincial Government and there will be debentures whose interest will have to be guaranteed by the State. Why should not the concern in that case be absolutely a State concern?—It is an extreme case but we hope that shares will be subscribed by the public largely.

6870. Even under the present conditions in India?—Present conditions are exceptional but we do hope that when normal times return, it will be possible.

6871. You say that debentures should be exempted from all sorts of taxes. Would you kindly explain what taxes you are referring to?—Stamp duty for example.

6872. You say that the capital of the industrial banks should be subscribed to some extent by insurance companies. In the subsequent paragraph you say that if certain precautions are taken, the more farsighted among the insurance companies will find it worthwhile to join the industrial banks either as ordinary stock holders or as debenture holders. I take it therefore that you are not in favour of placing any compulsion on insurance companies to invest in the shares or debentures of industrial banks?—We do not advocate compulsion, but we believe that if provision is made as suggested by us the insurance companies will of themselves subscribe liberally.

6873. *Mr. Manu Subedar*: With regard to insurance companies you are aware that foreign insurance companies which are working in this country do not, as a rule, purchase Government securities in this country and you have suggested that the bonds of the industrial banks should have Government guarantee. You are therefore giving these bonds the same importance as Government paper and you want to create a market for these papers, and you want that a portion of the funds which go to the insurance companies as premia should be invested in this country? There is no compulsion at present either on the Indian or on the English insurance company and they are at liberty to do whatever they like with the premia received from fire, marine or motor-accident insurance. Now in America, there is a regulation which compels insurance companies to put a certain percentage of their premia in American securities. Would you like a similar regulation introduced in this country?

Mr. Sen Gupta: Certainly we would.

6874. So you agree that the insurance companies should be compelled to put a certain portion of their premia in Government securities including the securities which the Government guarantee?—Of course we would not go so far as to say that the insurance companies should invest these local premia in debentures of the industrial banks alone; but we would fully approve of any legal measure compelling them to invest the local premia locally.

6875. *Chairman*: You say that it should be the duty of the various departments of the bank to compel the borrowing firms to accept and carry out the advice and counsel of the experts and trained men maintained by special departments of the bank. If the industrial concerns incur any loss by carrying out such a policy, will not the bank be placed in the position of being responsible for the loss incurred?—The bank should have no liability for the losses incurred because it will form part of the contract before the money is lent to the borrower.

6876. Then, is it your intention that the liability which may arise out of the concern accepting the advice of their experts under a compulsion should fall on the concern?—We are only anxious to enforce the terms of the agreement.

6877. Supposing I am one of the directors of your industrial concern, and I enter into a contract with the Industrial Bank under which I agree that I shall always accept the advice of the various departments of the bank in regard to the management of my business. I shall also say there

that if, in consequence of this, my concern is put to any loss and may, as a result, have to be wound up, the responsibility will be mine and mine alone. Is that the sort of contract you are visualising?—Yes. The contract should provide that the party which borrows undertakes to follow the advice of the experts of other departments of the bank?—If there is a difference of opinion the borrowing party may not take any money at all. The presumption is that the liability of the borrower to follow the advice of the directors of the bank will be limited by the terms of the contract.

6878. *Mr. Khaitan*: You have said in your memorandum that "the banks should have special departments manned by experts and trained men whose business will be to examine all the schemes of their clientele and also to advise them whenever they may require it, and even sometimes volunteer advice and counsel which it should be the duty of other departments of the banks to compel the borrowing firms to accept and carry out." So far as the industrial banks are concerned the borrower may require money for two purposes, one is block account whether it is to complete a factory or whether it is to extend the factory or whether it be to replace old machinery by new; or the borrower may require working capital. The security in the first case will be the block, *i.e.*, the factory; the security in the other case will be the liquid assets consisting mostly of the raw material, the finished products, the stock in process, the stores and other things. When the industrial banks are approached to lend money for block purposes, is it your idea that the borrower must submit his scheme to the industrial bank specifying the block purposes for which money is wanted?—The industrial bank will, with the help of the experts and trained men, go through the scheme and if they find that the carrying out of that scheme will help the particular industrial concern, the industrial bank will agree to give money for those block purposes.

6879. Now having once got the scheme examined by the experts, is it your opinion that it will be the duty of the borrower to carry out the scheme in its entirety and not to modify the scheme without the express consent of the industrial bank and will it be the duty of the industrial bank to see that the scheme once agreed to is strictly followed without any alteration by the borrower unless he has obtained the express approval of the bank authorities?—That is what we mean.

6880. *Mr. Khaitan*: As regards working capital, perhaps what the industrial bank would do, just as the Imperial Bank does, is to enter into yearly contracts for lending out monies on the security of the liquid assets, *e.g.*, raw materials, stock, goods in process of manufacture and so forth. If the industrial bank finds that a certain industrial concern is not being run on proper lines, then the Bank will advise the borrower that certain specified changes ought to be made in the method of carrying on his work. If the borrower listens to the advice, then the bank renews its agreement for giving working capital. If the bank, however, finds that the borrower is going on in the wrong way and the funds of the bank run the risk of being jeopardised, then the bank will not renew the agreement. Is that not so?

Mr. Roy Choudhari: Yes.

6881. *Chairman*: If that is your view, what you have said requires some modification. You said just now that the requirement for block capital should always be given on the security of the block. Therefore if that security is not there, no advance should be

given. It is limited to that extent in the first instance. Even so, you have not arrived at the solution. I was trying to find out what your Chamber had in view. You say that plant and machinery have to be installed and you tell the concern that if they accept your advice in regard to the block or the extension of the block, plant, machinery, etc., you will make them the advance. They get the advance. It may even then be secured on the existing block as the plant is there. But thereafter they may work it in such a way that the block becomes valueless and may have to be sold for a song. They may mismanage the concern and the lending bank will have no control. Therefore I thought that you wanted to ensure the second part of the control. But it seemed to me that there would be practical difficulties in the way of ensuring that part of the control and I put the question to you in order to find out how you would ensure that part of the control. From what you now say, your intention is that money should be advanced for block or extensions of block on some tangible security that may be there without any stipulation or any control on the part of the bank as to how the business is to be done, and that may result, in three or four years' time, in the block, for which the bank advanced money, becoming so valueless that it may fetch only a song when the concern goes into liquidation. We will leave the question at that.

6882. You say that if a group of persons intending to float an industrial company approach the provincial Industrial Bank for capital, the Bank, if satisfied, should underwrite the whole amount of the capital. It has been suggested that it will be more satisfactory from the point of view of the industrial bank if the promoters of a new company were themselves asked to put down a certain proportion of the initial block capital required by the company before approaching the industrial bank for finance. Would you kindly give the Committee your views on this suggestion?—We refer to pioneering industries built with State aid which have established their position, or an industrial company which has passed the experimental stage and wants to make it a commercial concern.

6883. Therefore it has already provided the initial block capital?—Perhaps a large portion of the capital.

6884. Therefore you practically accept the suggestion. If you say it is your intention that an industrial company, before it approaches a bank, must have established itself and floated a considerable amount of capital, that practically is accepting the suggestion?—Yes.

6885. *Sir Hugh Cocke*: Do you refer to persons intending to start an industry?—There are some pioneering or experimental industries which have passed the experimental stage with their own money and when it is found that they have sufficient prospects, they go to the bank for help.

6886. Therefore they have no capital of their own?—They may have some capital.

Mr. Buckley: It may be some private business being floated into a public company.

6887. *Mr. Devadhar*: Would you like the industrial bank to start the industry and also manage it?—No.

6888. You would confine yourself to finance?—Yes. If a private concern intends to convert itself into a public company, the industrial bank may underwrite the whole share capital.

6889. *Sir Hugh Cocke*: When you say the whole share capital, I take it that the vendor who has already spent a couple of lakhs on that venture would be prepared to take shares; therefore to that extent the industrial bank would not be called upon to underwrite?—It may underwrite the residue.

6890. *Mr. Devadhar*: In that case you also take the responsibility of running the concern unless you mean this would be a double function?—But the bank undertakes to sell the shares and so put them in the market.

6891. In addition to the financing of a particular industry, would you like the bank to undertake the organisation of it, *e.g.*, the starting of the work?—We do not think it would be practicable.

6892. *Mr. Khaitan*: Take for example the oil fields. Suppose a person obtains a license to prospect a field. He has explored and done the prospecting and finds that there is a sufficient quantity of oil or, say, coal or any other ore. After having satisfied himself that this could be made a businesslike proposition, he wishes to float a company and work the oilfield. If he can satisfy the industrial bank that the prospects of the oilfield is quite good, do you think the bank should help the promoter with underwriting the whole amount of capital and besides subscribing a substantial portion of the shares, undertake to sell the rest? Do you contemplate a case of that character?—That should be the ideal position which a proposed industrial bank should try to attain.

6893. *Chairman*: It may be an ideal position, but is it part of your scheme or not?—I think we have not that in view.

6894. When you refer to the non-major provinces, have you in mind the Areas that are now directly administered by the Central Government like Delhi, Ajmer-Merwara, and North-West Frontier Province, and the province of Coorg?—By major provinces we only meant the Presidencies of Bengal, Bombay and Madras.

6895. For the other provinces you advocate a different system?—Yes. An industrial survey will have to be made for them.

6896. Am I correct in assuming that your intention is that industrial banks should be mainly concerned with providing finance for block capital including initial share capital and later extensions and that they would provide finance for working capital only if they have surplus funds, and if so, I take it that your industrial banks would not take short-term deposits from the public?—They can take short-term deposits.

6897. You would not object to their taking short-term deposits?—No.

6898. You say that having regard to the nature and extent of the help which the Government should extend to these industrial banks, the Government should reserve the privilege of adequate representation on the directorates of the banks. What do you mean by 'adequate'?—Just to safeguard the interests of Government. We would confine this to a minimum of one-third.

6899. But if Government is to get a representation to safeguard its interests, under your scheme the interests of Government will be very large and they must have a majority?—In any case we want to have a certain degree of public control.

6900. You apparently want the taxpayer through Government to practically find everything and all that the shareholders or their representatives

will have to do is to earn a return on the amount they have provided?—We anticipate that Government will have a larger representation so long as they hold the shares unsold.

6901. When you say 'larger' does it mean more than half? Is it your intention that at any rate up to that stage Government should have a majority on the Board of the Directorate?—That is so.

6902. *Sir Hugh Cocke*: You would also provide that where the industrial bank finances a particular concern which is a limited company, the industrial bank should have a representation on the board of that company?—Yes, we want that.

6903. *Chairman*: I take it that even if the Government have sold to the public all the shares held by them they would, in view of the perpetual guarantee they give for the interest on the capital, have some representation on the directorate of the bank. Would you kindly explain what representation you would give and whether Government directors would be allowed any power of veto?—Government will still have a representation of one-third, but there should be no power of veto.

6904. Another chamber of commerce, also from Calcutta, has said that "Government should, through its representatives on the Board, take care to see that money is not advanced without sufficient security, that every scheme is examined thoroughly by experts and that there is no favouritism in the treatment of industries or concerns conducted by particular individuals or firms." Would you agree to a similar condition?—It will be for the industrial bank to decide this.

6905. This statement was made by an Indian chamber and apparently even they are afraid that there might be other difficulties, *e.g.*, favouritism in the treatment of industries, etc.?—There should be a safe-guarding clause like that.

6906. Therefore you would accept that Government, through its representatives on the Board, should take care to see that money is not advanced without sufficient security, that every scheme is examined thoroughly by experts and that there is no favouritism in the treatment of industries or concerns conducted by particular individuals or firms?—We agree.

6907. *Mr. Khaitan*: You say that "Government should reserve the privilege of adequate representation on the directorates of the banks, which should also consist of representatives of the financial, commercial and industrial interests of the respective areas served by them; shareholders, of course, should have a proportional representation." So you would like to have three classes of directors: Government directors; directors representing financial, commercial and industrial interests; and directors who would be representatives of shareholders?—We advocate only two classes. Government will nominate directors and see that all classes are represented from a panel elected by the Chambers of Commerce.

6908. What proportion would you give to Government?—Minimum one-third.

6909. *Chairman*: So long as Government hold unsold shares, you have already said that up to that stage you want that Government representation on the Board of the Directorate should be a majority. When Government have sold to the public all the shares held by them, you say that the number of Government directors should be one-third minimum?—It is a specific limit; it is neither a maximum nor a minimum.

6910. Mr. Khaitan was perfectly right in the line he took, *viz.*, that apart from Government directors, there would also be the other representatives you mentioned. You now say that in the portion of the directorate which consist of the representatives of Government these would come in. I do not quite understand what sort of directorate you will have?—Government will exercise nomination out of a panel of members elected by the different Chambers of Commerce.

6911. *Mr. Khaitan*: I do not know what the size of the directorate would be. If we take, say, nine directors, you would reserve one-third to Government, when Government would have the right of nominating three out of nine. Out of the three you expect Government to nominate also the representatives of the financial, commercial and industrial interests. I think the financial, commercial and industrial interests themselves would occupy the three places. Perhaps you will agree that more than nine might make the body a little unwieldy. You might make it twelve. Even under a scheme of twelve directors, you give the right to Government of nominating four, so that there will be one Government officer and three representatives of the financial, commercial and industrial interests?—That is our idea.

6912. *Mr. Manu Subedar*: Would you, as a rule, have a purely administrative officer, like the I. C. S. on the board of these industrial banks? In your opinion what would be the qualifications of Government nominees? Would you have an I. C. S. man who would probably turn down every proposition which comes before the Board?—How can he? Government nominees will not always be in a majority.

6913. But they would be in a majority up to the stage when the shares are held by Government, so that at that stage the I. C. S. influence might dominate the Board and no progress could be made.

Chairman: That is an assumption, which is practically going to a political question. The I. C. S. may be wholly Indianized by then.

6914. You suggest that statutory obligations and restrictions should be placed regarding the 'national' character of the industrial enterprises receiving help from the banks. Would you explain a little more fully your suggestion in this matter?—The primary object of these industrial banks should be to foster Indian industries; therefore no concern dominated by non-Indians, in respect of shares or directorate, should receive help from industrial banks.

6915. You mean that the concern itself should have a share capital, the majority of which, say 50 or 75 per cent., should be held by Indians and that on the directorate there should be a majority of Indians?—Yes.

6916. I take it you will also provide, either by legislation or through the articles of association, that no shares held by Indians should be allowed to pass into the hands of non-Indians?—Yes, not more than 25 per cent. of the shares should be held by non-Indians.

6917. *Mr. Manu Subedar*: Is it your intention that these restrictions as to the shares passing into the hands of non-Indians should be with regard to concerns to which loans are given or does it apply to industrial banks also? Supposing a foreign syndicate decided to acquire controlling interest in one of your banking institutions, would you allow that?—No.

6918. There too you would have some restriction, either by law or through the articles of association, against the possibility of shares held by Indians being transferred to non-Indians?—Yes.

6919. *Chairman*: You also suggest that limit should be placed on the extent of non-national participation in the share capital of the industries financed by the banks. Would you also expand your idea in this suggestion a little more fully?—Our previous answer covers this.

6920. You say that the existing exchange banks confer distinct advantages on the non-nationals carrying on export and import trade in India and that Indian traders are confronted with difficulties owing to racial basis. Would you kindly give the Committee any instances of such racial bias? You could give it to us confidentially if you prefer to do so?—We cannot give any particular instance. Our Chamber is of that opinion and every member is of the opinion that such racial discrimination exists.

6921. You cannot produce any concrete case?—No.

6922. *Mr. Manu Subedar*: Were you unanimous in that opinion on your Committee?—Yes.

6923. *Chairman*: When you go back to Calcutta, would you be able to send us a concrete instance?—We may, we cannot say definitely.

6924. I think you told us that you would send a concrete instance of what you consider racial discrimination on the part of the Imperial Bank?—We have got it here and we will hand over the papers after the meeting.

6925. *Chairman*: You say that the committee of the chamber have received information from some members that without confirmed bankers' letter of credit from abroad no credit facilities are available from any important banks in Calcutta. You add that as a rule for the shipment of food products such as rice, etc., confirmed bankers' credit is not available and business is done generally after inspection of the food products at the port from which they are exported. Would you kindly explain (1) who makes the inspection, (2) after the inspection is made, whether the exchange banks take over the bills on the foreign importer for collection, and (3) whether the Indian exporter gets any advance from the exchange banks pending collection of the sale proceeds of the goods from the foreign importer?—This is a complaint made to us by one of the members of our chamber. The name of the concern is Indo-Swiss Trading Company who carry on extensive business with Germany and Czecho-Slovakia. Without reference to them I cannot give any further information.

6926. *Mr. Buckley*: Would you very kindly ask the party in question to give you full particulars about this which you will please communicate to us confidentially?—We shall do so. The party has left for Germany and we shall have to communicate with them which might mean some delay.

6927. *Chairman*: Have not they got their office in Calcutta?—Yes, they have, but full particulars will not be available from the Calcutta Office.

6928. Any way, we shall be obliged if you can get all the information before the end of October?—Yes, we shall do so as early as possible.

6929. You refer to the facilities for clean credit and say that there is unmistakable bias against Indians and clean credit is given only to European merchants. In the matter of clean credits you will agree that the banks will have to be guided by the standing of the client. Can you give any instance of an Indian client of good financial standing being refused facilities for clean credit by exchange banks?—We do not know of any case where clean credit has been granted to any Indian merchants. They experience difficulty even in the matter of discounting documentary

bills and that in the case of concerns which are financially very sound. This is the opinion of the Chamber.

6930. *Mr. Buckley*: Documentary bills are not credit, are they?—No, what I say is that even there they experience difficulty.

6931. Can you give the Committee in this case as well specific instances?—You must, however, remember whether a bank discounts a documentary bill or not depends entirely on the standing of the party?—Of course we agree in regard to the latter point.

6932. *Mr. Sarkar*: Would it not be possible for the Exchange Banks' Association to furnish details of cases in regard to this? (*Chairman*). The Exchange Banks' representatives definitely assured this Committee during their oral examination that this is entirely a matter for the banks who decide individual cases on their merits, that there is absolutely no question of racial discrimination, and that cases are decided on the position and standing of the firm in question. So then, that being the case, it is for the parties who make complaints against the exchange banks to hand us specific instances (confidentially if desired) to enable us to pursue the matter with the parties concerned.

6933. *Mr. Khaitan*: Even if specific cases are furnished, it can always be said that they were all cases below the standard which did not deserve help.

Mr. Buckley: You know Mr. Khaitan, after all this is a thing for the whole Committee to decide on the facts of the case placed before them.

6934. *Chairman*: Mr. Buckley is absolutely correct, that it is a matter for the Committee to decide. (To the witness) When you get back to Calcutta, could you send us at least one concrete case bearing on this point as also in regard to your further statement that there is discrimination against Indians even in the matter of discounting documentary bills?—We shall try.

6935. You say that private firms in India doing banking business as are prepared to accept a scheme of official inspection and undertake to submit periodical returns regarding their state of affairs may be granted the privilege of using the appellation "Banking Company". May I know if you would allow other private firms which do not register themselves as banking companies to receive deposits from the public?—No, we would not. They would also have to register themselves and submit periodical returns.

6936. They will have to submit returns and accept the scheme of official inspection. Is that what you say?—Yes.

6937. Would you stop by legislation the choice of the individual who deposits his money with anybody in whom he has confidence?—We cannot stop it by legislation, but such firms or individuals will not be permitted to use the appellation "Banking Company" or "Banker".

6938. Would you allow them to receive deposits from the public?—We cannot prevent them from doing so.

6939. *Mr. Khaitan*: You say "Regarding private firms in India doing banking business the Committee would suggest that such of them as are prepared to accept a scheme of official inspection and undertake to submit periodical returns regarding their state of affairs may be granted the privilege of using the appellation "Banking Company". As it is, according to you, the only facility that you would give to a concern doing business

under such restrictions is to use the appellation "Banking Company"?—Yes.

6940. Is it within your knowledge that many indigenous bankers in Bengal use the appellation "Banking Company". Is it not within your knowledge that several well-known indigenous bankers do enormous business without the use of that appellation and naturally they have no inducement to accept the scheme of official inspection and submit to periodical returns. Is that not so?—I admit it is so, but, at the same time, our idea is to have some legislation by which these indigenous bankers would be induced to accept the scheme of official inspection and undertake to submit periodical returns.

6941. *Chairman*: You say that an Indian bank, however, well managed it may be, finds it extremely difficult to take over the exchange business which is yielding enormous profits to non-Indian companies year to year. Have you any reliable information of the profits made by the exchange banks from the Indian business and how they compare with the profits made by the Indian banks in their internal business?—*Mr. Sen Gupta*: Their profits roughly come to about two crores. At present the exchange banks are earning on several items such as the exchange rate, the charges on B. C. bills and internal trade, etc. We have made a rough estimate of their profits estimating 1 crore on exchange business alone on the basis of the difference between their buying and selling rates, *viz.*, $\frac{1}{16}d.$ which means $\frac{1}{8}$ per cent.

6942. As regards the profits made by Indian banks, have you any information?—We have not got sufficient information with us to be able to give an accurate estimate but we do say that the profit which is now earned by the exchange banks in this country is enough to induce any Indian bank to take up exchange business.

6943. *Mr. Manu Subedar*: It is possible to ascertain the profits of the Indian banks from their balance-sheets, but what about the profits which the exchange banks get in this country? Their balance sheet does not contain any such information. Is it not so?—Yes.

6944. Therefore we could not know what profits the exchange banks make in this country?—No, we cannot.

6945. But your idea is that the amount of profits they make is very large?—Yes.

6946. In the absence of statistics, it is difficult to form any idea of the exact profits made by the exchange banks?—This is so.

6947. But you think that accurate figures could be ascertained if their business were properly analysed?—Yes, we think so.

6948. And you also think that if their figures are thus analysed, their profits may turn out much higher than the figures which you have now arrived at?—Yes.

6949. If you send a telegraphic remittance to-day through an exchange bank, they would charge you commission and if you brought back the same through the same bank there would be another charge?—Yes.

6950. So that the exchange banks make something at both the ends on these remittances. Is that not so?—Yes.

Mr. Buckley: No business man would send money home in the morning and bring it back in the afternoon.

6951. *Chairman*: You say that it is meet and proper that the monopoly in exchange business enjoyed by the foreign exchange banks in India should be undermined at least so far as it is due to any differential advantage enjoyed by the foreign banks in comparison with Indian banks. Would you kindly tell me what differential advantage is now enjoyed by the foreign banks?—They are in a position to attract deposits at lower rates than other Indian banks.

6952. Is that within your knowledge?—That is our information, Sir.

6953. We have been told that there is no competition between Indian banks and the foreign exchange banks in the matter of deposits?—At least in Calcutta, they do compete with the other Indian banks.

6954. Do they offer higher rates?—No. On the contrary they are able to attract deposits at lower rates, because people think that they have been established in this country for a long time and have very large resources.

6955. In other words, people have more confidence in them because of their longer standing?—That is not the sole reason.

6956. *Mr. Khaitan*: So you think that operates to the disadvantage of the Indian banks in this country?—Yes.

6957. *Chairman*: Have you any statistics to show how the deposits of the Indian banks have grown in the last 5 years as compared with those of the exchange banks?—The deposits of the Indian banks have considerably increased along with the exchange banks.

6958. Therefore would that support the statement that the Indian depositor though he gets a lower rate of interest prefers to go to the exchange banks? I have got before me certain figures published by the "Indian Finance Banking Enquiry Number" (the issue of the Indian Finance was handed over to the witness)—*Mr. Roy Choudhari*: Up to now this has been true but gradually the patriotic sense is developing in this country and we hope that most of the business done by the foreign exchange banks will pass into the hands of the Indians.

6959. The statement that you make is not substantiated by these figures. In the first place you said that there was an undue competition between exchange banks and the Indian banks in the matter of deposits. Then you said that that was due to the exchange banks offering a lower rate of interest. Then again you stated that the exchange banks were of a longer standing and therefore the Indian depositors prefer to go to them. Now I have given you figures for the last 5 years which show distinctly that the public preference is towards the Indian joint stock banks as against the exchange banks and personally I am glad to hear from you that that is due to the growth of the national spirit.—*Mr. Sen Gupta*: What we mean is that although the rate of interest allowed on deposits by exchange banks does not compare favourably with that allowed by the Indian banks, the differential advantage enjoyed by the exchange banks on this score is making it increasingly difficult for Indian banks to compete with exchange banks.

6960. *Mr. Manu Subedar*: After reading your memorandum I take it that your feeling is that Indian money ought to be handled by Indian banks to the advantage of the Indian businessmen?—That is so.

6961. And I also take it that the whole object in making this severe restriction against the foreign exchange banks or foreign banks in the

matter of taking deposits is to enable Indian money to remain in Indian hands and benefit the Indian business men?—Yes.

6962. Now, with regard to this competition, are you aware that every Indian firm which starts doing exchange business is compelled to put up a deposit with the exchange banks without which the exchange banks would not undertake to do any business for them?—Yes, such cases have been reported sometimes.

6963. Therefore the rates of interest offered by the exchange banks though lower do not necessarily indicate that people have more confidence in them because some people have to put money with them in order to be able to carry on foreign business through them. Is that not so?—That is so. Some of the deposits are attracted in this way.

6964. Is a large proportion of the deposits attracted that way?—A considerable portion no doubt.

6965. Otherwise do you think that customers could not get good references?—No, there would be some difficulty.

6966. You say that the Indian bank rate is unnecessarily high on account of reasons not connected with trade but with currency and that the lending rate is based on the Indian bank rate. Therefore the rate at which these exchange banks lend out is high and the rate at which they receive deposits is low. Is it your opinion that the profit-earning opportunities of these exchange banks are greater?—Yes.

6967. *Chairman*: Is it the impression of your Chamber that deposits are attracted to exchange banks because the depositors think that in order to carry on their exchange business they will not otherwise be able to get better references in foreign countries, or is it the experience of your Chamber that Indian depositors in Calcutta prefer to go to an exchange bank because of its greater stability? I put this question deliberately and I would like to have your answer.—(*Witness*): There are cases like both but we cannot give an exact proportion.

6968. You say that exchange banks frequently enter into competition with indigenous banks in matters of internal trade finance. It has been mentioned to the Committee that exchange banks generally finance internal trade only to the extent that such trade is connected with the exports or imports. Would you kindly give the Committee any instances where the exchange banks compete with the Indian banks in regard to the financing of internal trade in other ways than as mentioned above?—In this connection I may mention the name of the Allahabad Bank Ltd. It is connected with the Chartered Bank which is an exchange bank and it competes with Indian banks in the matter of internal trade.

6969. The business is not the business of the exchange banks. The Allahabad Bank may be affiliated to the Chartered Bank but the business conducted by them is not the business ordinarily done by exchange banks. Is the Allahabad Bank an Indian joint stock bank with Indian directors?

Lala Harkishen Lal: The majority of the shares are outside India. The P. & O. Company has the controlling voice in it. There is no Indian director except Raja Ram Pal Singh. It is also said that the policy of the Allahabad Bank is to replace its Indian employees by European employees. That at any rate is the impression in Northern India.

Chairman: The case of the Allahabad Bank is then the case of a bank which is mostly non-Indian now, as the control has passed to non-Indian hands.

6970. You say that foreign exchange banks should be legally debarred from attracting local deposits. Would you kindly tell me what is the object underlying this suggestion?—We are strongly of opinion that there should be absolute prohibition because we think that the establishment of an Indian exchange bank depends to a great extent on such a provision. The deposits which are now attracted by foreign exchange banks will be released and made available to the proposed Indian exchange banks considerably adding to the status of the new Indian exchange banks and enabling them to compete with the foreign exchange banks.

6971. This will result in the beginning at any rate in the curtailment of facilities in regard to foreign trade?—We do not apprehend that there will be any considerable curtailment. The foreign banks after losing deposits may have to discount their import bills locally to replenish their rupee resources. That would help the development of a local discount market.

6972. You think that there will be some curtailment?—Yes some curtailment for a certain period only; in order to get the advantage now enjoyed by the foreign exchange banks the Indian banks and Indian traders must suffer some disadvantage temporarily.

6973. If the object is to enable Indian banks to compete more readily for foreign exchange business, will the mere acquisition of increased resources in India necessarily mean increased facilities to Indian exchange banks for the financing of the foreign trade?—We think it will go a long way to help it.

6974. Is it not more necessary for the Indian exchange banks to get access to the London market than to obtain greater resources in India?—They will have to.

6975. How will they achieve that?—Their bills can be discounted there. That will be the chief advantage and it can be arranged through the London banks thereby saving a little more money for India. We think that Indian trade is so indispensable for England that the London banks will not find it worth-while to make any discrimination against India.

6976. If an experienced Indian banker told us that in order to do foreign business successfully it was necessary to secure the good-will of the foreign exchange banks, do you think that his opinion was not correct?—This is a matter of opinion.

TWENTY-THIRD DAY.

Monday, the 22nd September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Mr. MANU SUBEDAR.
Sir HUGH COCKE, KT.
Dr. L. K. HYDER.
Mr. W. LAMOND.
Lala HARKISHEN LAL.
Mr. R. W. BUCKLEY.
Mr. JADU NATH ROY.
Mr. G. K. DEVADHAR, C.I.E.
Mr. NALINI RANJAN SARKAR.
Seth Haji ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

The examination of Captain Nalini Mohan Roy Choudhry and Mr. J. N. Sen Gupta, representatives of the Bengal National Chamber of Commerce, was continued.

6977. *Chairman*: It has been pointed out that the reason that Indian banks have not been able hitherto to compete in exchange business on any large scale is not due to lack of deposits, but is due to lack of facilities for handling exchange business and lack of sterling resources, that the former difficulty may be remedied with the acquisition of trained experts and the latter will come only as a result of increased confidence in their name and the paper they endorse, coupled with good-will and co-operation on the part of the other exchange banks in India. Would you kindly give the Committee your views on this suggestion?—*Mr. Sen Gupta*: So far as trained experts are concerned, we have in view the establishment of Indian exchange banks which would provide facilities for the training of such experts. So far as sterling resources are concerned, this probably refers to discount facilities in London; we suggest that Indian exchange banks may for some time arrange with London banks and offer such commission as may induce them to discount their bills.

6978. You say that exchange banks should be authorized to carry on their business in India only if they deposit a statutorily fixed minimum of approved securities with Government. If a Reserve Bank is established and exchange banks along with other banks are required to keep a certain percentage of their time and demand liabilities as a reserve with the Reserve Bank, could you require in addition a deposit with Government?—Yes, we want that.

6979. Your Committee recommend further amplification of balance sheets with particular reference to investments and advances. Will you kindly furnish us with a copy of the balance sheet amplified in the manner suggested by you?—Our Committee have not thought of any particular form, but they want that balance sheets should be published in more detail.

6980. Have you any idea of what the additional details should be?—Details as regards advances to the directors, investments in Government securities, investment in shares at their market price or cost price, whichever is lower, investments of reserve fund, etc.

6981. *Sir Hugh Cocke*: Would it be possible for your Chamber to supply us with a sketch of the form which you contemplate?—Yes, we shall send it.

6982. *Chairman*: You say that it is legitimate for the Government to resort to the practice of occasional sale of treasury bills in the market for making up their deficiencies in ready cash, pending the collection of revenues. I take it you are referring to the pre-war policy but since the war the treasury bill has been made an entirely new instrument. I will read to you a passage from an address on "the Money Market since the War", by Mr. D. Spring-Rice before the Bankers' Institute:—

> "The amount of treasury bills outstanding before the war was small because by law its amount was restricted to certain forms of deficiency in the national accounts which could be met in anticipation by means of these bills. The exigencies of the war made their use almost infinitely legal, and subsequent legislation placed no real limit on their amount. Thus it came about, after the war-time inflation of bank deposits, that the Government obtained, through these bills, real control, if they chose to exercise it, of rates in the short money market."

Does not the policy of the Government of India in this matter follow that adopted by the Government in England?—That might have been the policy in England. So far as conditions in India are concerned, we are not satisfied with the system under which treasury bills are issued in this country and from the quotation referred to in this question it appears that the British Government might have exercised control over the money market if they liked. It seems that in fact they did not exercise this control. The conditions under which treasury bills are issued in India and in England are entirely different.

6983. Is it your information that the British Government have never exercised indirectly any influence on the money market?—So far as we have been able to gather, the treasury bills of the British Government were for some time issued at fixed rates, so that there was a minimum price below which the banks could not go. In that way they exercised some control, but that practice was abandoned and gave place to the policy of issuing bills by tender. When that system came into vogue, the control by Government was practically withdrawn. That was probably in 1921, but I may say that the conditions under which treasury bills are now issued in England and in India are entirely different.

6984. In what respect?—In England the total outstandings practically remain stable for some time, but the bills in India vary from time to time and even in the current year there has been a phenomenal increase in the new issues. That the total outstandings in England have remained comparatively stable in recent years is indicated by the fact that the value of the new weekly issues is practically equal to the weekly volume of maturities, while in India no such relationship to the weekly volume exists. Further, the rate at which bills are issued in England rarely exceed the rate in the money market, but in India the rates of the treasury bills often exceed the rates quoted in the money market.

6985. *Sir Purshotamdas Thakurdas*: Your point is that the control of credit and money does not coincide in the same way as in England; the bank rate may be at a point which does not reflect the correct position of the monetary conditions in the country?—That is so. The market rate for three months' bills on August 7th, 1930, in England for £100 was £2-6-3, the rate on treasury bills was £2-4-3. The Government were accepting certainly a lower price. But in India even for the last week (13th September 1930) the market rates were: 1¾ per cent. for call money and short credits; 2¼ per cent. for one-month deposits; 3 per cent. for two-months and 3¼ per cent. for three-months. The total amounts of six and three months bills were Rs. 44 lakhs and Rs. 156 lakhs respectively and the average rates of accepted tenders Rs. 4-14-0 and Rs. 3-13-4 per annum, respectively. The Government here have been offering a higher rate than the market.

6986. *Mr. Rushforth*: Would you mind explaining the sentence in your memorandum about treasury bills that "their issue has resulted in making the position of the banks worse?" In what way has this issue affected the banks?—The issues of treasury bills have often been responsible for deflation unlike in England, where the issues of treasury bills result in an inflation being used as reserve against fresh deposits.

6987. But in what way have they made the position of the banks worse?—They create a tight money market.

6988. *Chairman*: I suppose the real point is brought out in my next question: you say that the effect of high rates of interests for treasury bills paid by Government has been to make the position of the banks difficult, who have been unable to attract depositors with lower rates of interest. May I point out to you that this is not a complaint peculiar to India by reading a passage from Mr. Spalding's book, 'The London Money Market': "These Treasury Bills purchases tended to absorb the excess supply of floating money on the market, and kept bankers' rates for money at call, at short notice, and for longer periods at much higher levels than would otherwise have been the case."—As I have said, the total outstandings of treasury bills in England have remained comparatively stable in recent years.

6989. Have you any figures to give us?—We have no figures ready at hand, but we may refer to a passage in the book "the Discount Market in London" by Mr. H. W. Greengrass published in 1930. Here the author says, 'the treasury bills have since 1914 been the sheet-anchor of the discount market; with the exception, already noted, of the inhibition upon the Continental banks to hold large lines of them, they are always

eagerly sought and are freely discounted and re-discounted throughout their life. *The outstanding total is relatively stable over a period of months.'*

6990. There are the words 'relatively stable'. I have figures, which would come out in later questions, to show that the outstanding is subject to large variations. But apart from that passage, have you any statistics in your possession to support your statement that the outstandings have been steady in recent years or in recent months?—We have no figures ready at hand.

6991. Have you anything more to say on this question?—We may also say that the effects of issues will have to be considered in relation to the total volume of circulation. Probably the percentage relation which the total volume of treasury bills in India bears to the total volume of circulation would be much higher than the percentage relation which the total volume of treasury bills in England bears to the total circulation.

6992. *Mr. Rushforth*: I am not quite satisfied as to how this affects the position of banks?—The issues of treasury bills have often been responsible for creating a deflation and in that way a tight money market to give an instance. Referring to flotation in markets, the latest report of the Controller of Currency says that the continued issue of treasury bills and a contraction of 4 crores against rupee securities of the Government of India stiffened exchange and enabled the Government to purchase £2 million sterling at the end of August at 1*s.* 5$\frac{7}{32}$*d.*

Sir Purshotamdas Thakurdas: I am afraid you are mixing up credit and currency.

6993. *Chairman*: You say that Government should as far as possible try to tap the so-called non-money market sources and you refer to the Indian States as one of such sources. Would you kindly tell the Committee what other non-money market sources there are?—We stated this by way of giving a general suggestion. We had in mind the fact that for the 1928 rupee loan large subscriptions came from the Nizam's Government.

6994. I have some personal knowledge of that loan. I thought you were referring to the 1929 loan. Have you any other non-market sources in view?—We are not very categorical in our statement. Government may also turn their attention to the various religious trusts' funds, some of which may be profitably tapped. We are not of course very sure about it.

6995. We had better leave the consideration of the discussion about religious trusts. That is probably what you had in view?—Yes.

6996. You refer to the large Government of India's borrowings since 1917 and their effect on the flow of capital into industrial and other undertakings. Is this a peculiar feature of India alone? For example, I find taking the treasury bills alone in England, that while the total amount of bills outstanding before the war was about £20 million the amount outstanding now varies from £500 million to £800 million?—We think the answers we gave to the questions immediately preceding the last cover this to some extent.

6997. Except that it all depends on whether you find later that it is correct to say that the outstandings of treasury bills in England have been practically steady. The figures which I have taken from another published document show a wide variation.

6998. You say that recently the Imperial Bank rate shows a tendency of remaining unduly high throughout the year and not fluctuating seasonally as a few years ago. Taking the years 1928 and 1929 I find that in the former year the Imperial Bank rate was lowered to 6 per cent. in June and to 5 per cent. in July where it remained till the middle of November. In 1929 it was lowered to 5 per cent. in the beginning of June where it remained till the middle of October. The highest rates reached in the two years were 7 per cent. in 1928 and 8 per cent. in 1929. Comparing these with the year 1913 for instance, the Bengal Bank rate varied from 3 per cent. in June to 8 per cent. in January. Is not this lowering of the difference between the high and low points of interest rates in recent years rather a welcome sign than otherwise?—We are quite satisfied that the fluctuations have been minimised in recent years, but we have also noted that this has been attained not so much by bringing down the highest rate as by pushing up the lowest rate. Formerly the rate would go down to even 3 per cent., in recent years the highest rate has remained comparatively steady, but the minimum has gone up to 5 per cent.

6999. You say that recently the Imperial Bank rate shows a tendency of remaining unduly high throughout the year and not fluctuating seasonally as a few years ago. However, I shall leave it at that.

7000. You say that the Imperial Bank rate is extremely ineffective in its relation to the bazar rates which are often at marked variance from the official rates. I suppose you are referring to the rates at which the bills of small traders are discounted by *shroffs* in the bazar at Calcutta.—That is so.

7001. Comparing the two rates as given in the Controller of Currency's report for the year 1928-29, I find that the Calcutta bazar rate followed the Imperial Bank rate, for instance the bazar rate was about 10 per cent. during April to June 1928 when the Imperial Bank rate was 7 per cent. and when the Imperial Bank rate was lowered to 6 in July the bazar rate was reduced to 9. Again when the Imperial Bank rate was raised to 7 in January 1929, the bazar rate was raised from 9-10 to 10-12 per cent. This rather supports the statement made by the Bengal Banking Committee that as a matter of fact the *hundi* rates in the indigenous money market often changes systematically with the bank rate. May I therefore take it that your point is that the difference in the two rates is rather too high?—Not exactly that. We find that the bazar rate tends to be responsive only when there is a distinct change in the bank rate. But when the bank rate remains steady for a few months, we find that the market rate takes its own course and fluctuates. I am referring to the report of the Controller of Currency for 1929-30.

7002. In 1929-30 apparently the bazar rate in Calcutta has been fairly steady, the lowest is 10, the highest is 12. Practically for the bulk of

the year it was 11. Comparing the figures with the Imperial Bank rate we find that—

1929.		
In April . . .	the Imperial Bank rate was 8.	the Calcutta bazar rate was 11-12.
In May . . .	the Imperial Bank rate went down to 7.	the Calcutta bazar rate went down to 10-11.
In June . . .	the Imperial Bank rate went down to 6.	the Calcutta bazar rate stood steady at 10-11.
In July . . .	the Imperial Bank rate went down to 5.	the Calcutta bazar rate went down to 10.
In August, September and October.	the Imperial Bank rates were 5, 5 and 7.	the Calcutta bazar rate were 10, 11 and 11.
From November . .	the Imperial Bank rate has been 7.	the Calcutta bazar rate has been throughout 11.

—Our observation remains good so far as the Bombay bazar rate is concerned.

7003. We thought your statement was referring to the Calcutta rates as you come from Calcutta. The Bombay rates have already been examined by us on a previous occasion.

7004. Is not a part of this difference explained by the difference between a Government security and the bill of a small trader?—We do not think so, because there are many big traders who cannot have access to banks for discounting and who have to approach the indigenous money-lender for discounting their bills.

I have been throughout pursuing the matter on the assumption that you have been referring to the bazar bill rates as given in the report of the Controller of Currency as applying to the bill of the small trader. I am quite prepared to leave the question at that.

7005. *Chairman*: You say that requests for loans are rejected by joint stock banks even when the prospective borrower may have in his possession large stocks of goods of a value exceeding several times the amount of the loan demanded. Could you kindly give the Committee any concrete instances where such requests have been turned down by joint stock banks?—*Mr. Roy Choudhari*: Some have come to our knowledge and we will supply the Committee with concrete instances later on.

7006. You oppose the investment of foreign capital in Indian banking business, but you have no objection to foreign capital for industrial and agricultural banks. Would you kindly explain the reasons behind this differentiation?—We make a differentiation only in the matter of share capital and debentures. In the former case, our view is that capital should not be imported from abroad.

7007. Would you not object to industrial banks attracting foreign capital by debentures?—No.

7008. You say that it may help banks to attract more deposits if they take in some representatives of the depositors on the directorate. Would you kindly explain to the Committee how this suggestion can be carried out in actual practice?—As in the case of policy-holders of life insurance

companies, we suggest that the depositors of banks (both current and fixed) should have a voice in the election of directors. Our view is that one or two directors should be elected by these classes of people, those who keep their current accounts running for at least a year and all other fixed depositors.

7009. The question of the insurance companies' policy-holders is slightly different because they are somewhat of a permanent character, but my difficulty in the present case is how will you make it a practical working proposition?—Our view is that the current depositors should elect one director from among themelves, while the fixed depositors also should have one of their own nominees as a director. These elections shall take place once a year.

7010. My practical difficulty is this. Supposing the election of directors take place on the 31st March of a particular year when there are 50 current account depositors on the rolls and they may elect one man. When the new directorate comes to function three months later it may be found that 30 of these have ceased their connection with the bank having withdrawn their balances in the current account. Then what will you do?—Such occurrences in our opinion are rare. Generally these current account depositors are more or less of a permanent character.

7011. I have not put to you any question about the position of the indigenous bankers because I find all that you have said before us as also before the Bengal Provincial Banking Committee is in regard to banking regulation and you have made no recommendations in regard to the working of the indigenous bankers. I say this with a view to enable my colleagues to understand the position.

7012. *Mr. Khaitan*: As regards private banking firms you say that "the Committee would suggest that such of them as are prepared to accept a scheme of official inspection and undertake to submit periodical returns regarding their state of affairs may be granted the privilege of using the appellation 'Banking Company' to distinguish them from the registered corporations previously referred to." You will remember that I was asking you last Saturday whether leading indigenous bankers were using the words 'Banking Company' at all?—No, they are not using that appellation at present.

7013. Therefore do you think that the privilege of using the appellation 'Banking Company' could be a sufficient attraction for the indigenous bankers to accept a scheme of official inspection and to submit periodical returns which they do not do at present?—That is not a sufficient attraction. Our Chamber thinks that they must have re-discounting facilities as well.

7014. The Marwadi Chamber of Commerce, Bombay, who represent a great deal of indigenous bankers have placed a scheme before us. Their scheme is that the resources of the indigenous bankers should be enhanced by their getting re-discounting facilities and in return therefore they should submit themselves to inspection, etc., and the five points they advocate are:—

"(1) There should be, along with a schedule of joint stock banks, a schedule of *shrovs* to whom certain recognised financial facilities should be given.

(2) The *shroffs* who may conform to the standard fixed therefor should be included in the aforesaid schedule.

(3) The account books of the scheduled *shroffs* may be periodically inspected by examiners appointed by the Central Reserve Bank.

(4) They should be allowed to carry on the business of Commission Agents along with that of banking.

(5) They should be prohibited from trading on their own account."

Along with these they also agrees to another condition on the suggestion of Sir Purshotamdas Thakurdas that while they would get rediscounting facilities at 1 per cent. below the bank rate they would undertake not to charge a rate of interest higher than by about 2 to 3 per cent. over the Imperial Bank rate, so that they would get a margin of 3 to 4 per cent. between the rate on which they get their re-discounting facilities and the rate at which they would lend to their borrowers. What do you think of this scheme?—We are in perfect agreement with this scheme.

7015. *Sir Purshotamdas Thakurdas*: Has your remarks the approval of your Chamber?—Yes.

7016. Regarding licencing of foreign banks, you have not given us any details of the conditions that you would like to be included in the terms of the licence. Could you give us your further ideas in the matter?—We have not thought over the subject further. We shall write to you later on our definite suggestions in regard to this.

7017. *Mr. Devadhar*: Are there many members in your Chamber who have knowledge about the working of co-operative institutions?—Our members are mainly concerned with trade and commerce.

7018. Are there many indigenous money-lenders who are members of your Chamber?—Not the small money-lenders.

7019. May I therefore take it that in the memorandum which you have submitted there is no reference to anything like dealings of small money-lenders or those of the co-operative institutions by way of comparison?—We have made our suggestions in regard to that matter before the Provincial Committee.

7020. You do not think that trading or commercial interests are opposed to the promotion of co-operative institutions?—We are not opposed, neither are we indifferent with regard to the co-operative movement.

7021. If there is any such impression going about then it is wrong?—Yes.

7022. One of the conclusions arrived at by the Bengal Provincial Banking Enquiry Committee with regard to habitual usury (in paragraph 330) is that it should be made a criminal offence. What are your views in regard to this?—*Mr. Sen Gupta*: Probably the interpretation of this recommendation will be limited by another recommendation of the Committee where they have specified the maximum rate allowable.

7023. Yes, they say anything in excess of 48 per cent. shall be considered usurious. Do you think the ruling rate goes up so far as 48 per cent?—So far as our Chamber is concerned, I may assure you that

some indigenous bankers who are members are lending at even lower rates than the rates of joint stock banks.

7024. So then if you are for lowering the existing market rates of interest and if I tell you that the co-operative institutions are working with a view to bringing down the interest rates, you would favour the promotion of such institutions. Would you not?—In certain parts of Bengal these co-operative institutions are charging from 16 to 18 per cent. interest.

7025. In that case the ruling market rate must be more than 30 or 40 per cent.?—That might be.

7026. I am on the general ground. I am only trying to get a general opinion from your Chamber about your views on the Co-operative Movement?—We are not against the Co-operative Movement. We would welcome any institution which would strive in bringing down interest rates.

7027. *Lala Harkishen Lal*: You have made certain statement with regard to the treasury bills. May I ask you whether you think the line of action taken in regard to their issue in England and India is the same? In other words, do you think the class of people who tender for these treasury bills in England and India are the same?—In our opinion they are almost the same. We think bankers are primary investors in these treasury bills both in England and in India.

7028. Have you any personal knowledge in regard to this statement of yours?—We have read about it in financial journals and reports.

7029. Would you please name the journal for our information?—I do not exactly remember. Probably I read it in the "Indian Finance".

Mr. Khaitan: I do not think it gives that information.

7030. *Lala Harkishen Lal*: That is exactly my point. There are authorities who say that in England these treasury bills are mainly held by banks and discount houses, whereas the official notifications published by the Controller of Currency in India do not give us any information to show that they are the same class of people who subscribe for the same in India as well. What is your impression —We have no definite information on the point.

7031. If I tell as a banker of some experience, that Indian deposits are actually withdrawn from banks, when the treasury bills are offered at 6 per cent. interest, and are actually invested in the latter, will you doubt that statement?—We believe in that statement.

7032. *Sir Hugh Cocke*: With regard to your suggestion for having directors to represent the interests of current and fixed depositors of banks, would you tell us the procedure you would adopt in regard to the election?—*Mr. Roy Choudhari*: The procedure might be followed as in the case of insurance companies.

7033. By calling a meeting you mean?—Yes.

7034. Then would you make any restrictions with regard to the depositors who are entitled to vote?—A limit might be placed on the maximum deposit balance which will entitle a depositor to have a vote.

7035. Who will publish that eligible list?—The bank will have to do so.

7036. Without giving the particulars as to the amount of deposits held by them or not?—Banks should not divulge the financial position and

standing of the depositors. They must simply announce the list of depositors who are eligible to have a vote, and it is for the meeting of eligible voters to decide who their representative should be.

7037. *Chairman*: The bank's list is final in the matter and you do not expect any depositor to make a complaint that the bank's list is not complete or wrong in certain respects and so on?—The bank's list must be final.

7038. *Dr. Hyder*: You are in favour of industrial banks, are you not?—Yes.

7039. You are also in favour of having a few Government directors for these banks?—Yes.

7040. You said you were also in favour of having Government experts for these industrial banks. May I ask you what sort of qualifications you have in mind for these experts? Do you mean that they should be chemists or metallurgists or do you think that they should be expert financial advisers?—They should be expert financial advisers. We have already expressed our view that they should be representatives of financial and commercial interests.

7041. You agree that indigenous bankers should get re-discounting facilities from the Reserve Bank?—Yes.

7042. Would you place these indigenous bankers on the same footing as other joint stock banks or would you make any differentiation in their case?—We do not think there should be any differentiation.

7043. Do you think the Reserve Bank should charge the same rate for re-discounting facilities to these indigenous bankers as they would to the Indian joint stock banks?—In our opinion there should not be any difference in the rates of interest.

7044. *Dr. Hyder*: These joint stock banks have to deposit under law sums of money which would bring them no interest. Would you like a similar obligation to be imposed on the indigenous bankers?—We cannot express any definite opinion.

7045. Would you ask your Chamber to give its considered opinion on these points, namely, the rate of interest to be charged, the extent of the accommodation and the amount of deposits to be placed by the indigenous bankers in the same way as interest-free deposits to be placed by the joint stock banks?—We would do that.

7046. Would it be possible for your committee to let us have a confidential statement showing the total amount deposited by the members of your Chamber in the last 12 months with the various foreign exchange banks?—I cannot say whether it will be possible to obtain the information, but I will certainly place the suggestion before our Chamber.

7047. *Mr. Manu Subedar*: At the bottom of page 30 of your memorandum you said "they have no objection, for example, to taking loans from the latter when money is tight, but instances where they have lent money to them are very rare". Are you referring to the call-money loans or any other form of loans. You have been referring to the absence of reciprocity between the various institutions?—We have only stated a fact.

7048. Between the exchange banks and the joint stock banks, your information is that joint stock banks give money to the exchange banks but cannot take money from them?—That is so.

7049. With regard to Government borrowing is it your complaint that the volume of Government borrowing as well as the rate at which the Government borrow divert a large amount of money which would otherwise have been utilised in financing trade and industry?—We have made it clear in our memorandum.

7050. You have mentioned the volume but not the rates at which Government borrow?—We have already stated that the rates offered on the treasury bills are higher than those quoted for inter-bank business for corresponding periods.

7051. What is the result of this huge Government borrowing in such large amounts? Is it to advance trade and industry?—It is intended so far as we can make out to tighten the money market which entails a certain degree of hardship.

7052. You have stated that the resources of the Indian money market should be strengthened by transferring the reserves to India. I suppose you say this to support your statement where you say, "the remedy which the Committee would suggest in these circumstances is that not only should the Government's financial policy be brought in line with sound economic doctrines and true national interest .....,.....". Do you mean to say that there has been no financial policy in this country?—That is so.

7053. And you suggest that those reserves should be transferred to India?—Yes.

7054. You suggest this because you think that it will bring down the rates of interest?—Yes.

TWENTY-THIRD DAY.

Monday, the 22nd September 1930.

PRESENT :

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Lala HARKISHEN LAL.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. JADU NATH ROY.
Sir HUGH COCKE, KT.	Mr G. K. DEVADHAR, C.I.E.
Dr. L. K. HYDER.	Mr. NALINI RANJAN SARKAR.
Mr. W. LAMOND.	Seth HAJI ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Mr. R. C. Pandit, General Manager, **Bank of Behar, Ltd.,** was then examined.

7055. *Chairman*: Mr. Pandit, you are General Manager of the Bank of Behar ?—Yes, Sir.

7056. When was it started ?—In 1911.

7057. With what capital ? Have you got your balance-sheet with you ?—I have not brought it with me, Sir, but it appears in the Behar Committee's report.

7058. You say that audit and examination by special auditors will not be of much use, while on the other hand, it is likely to do incalculable harm if there is difference of opinion regarding investments with the Management and the publication of such reports. In the first place will you kindly say whether the present system of audit of banks is satisfactory ?—I think it is fairly satisfactory.

7059. In the second place, it has been suggested that audit by special auditors will be useful in creating confidence in the minds of the investing public and the shareholders. Would you kindly tell the Committee your views on this suggestion ?—I do not think that a mere certificate from the auditor will create any great confidence. It is the Management which creates confidence.

7060. In the third place will you kindly expand your idea regarding the possibility of independent audit doing incalculable harm to the bank ?—It depends on the kind of auditor you engage. He may give a report which may appear to be allright, but it may be wrong and may at times prove disastrous to the bank. I had an experience once when we engaged a chartered accountant and auditor who gave us a report saying that documents were produced which could not be identified, that securities were shown about which it was not possible to ascertain any value and so on. Now, as a certificate that was right enough but at the same time it misrepresented the true state of things in the bank and if that report were published, the public would at once have become suspicious.

7061. If the report was allright, why should not the depositors be allowed to know the true state of affairs ?—My submission is that it was not the true

state of affairs. Another difficulty is that most of these documents are in vernacular, at least in the moffusil where I have to carry on most of my business, and if all the auditors who came and gave certificates insisted on these documents being translated into English and then the translations to be verified, it would entail unnecessary expense on the Management.

7062. *Sir Purshotamsas Thakurdas.*—Is it your point that the auditor should be a person who can read the vernacular of the province ?—Yes; but it is very difficult to get auditors who know the vernaculars.

7063. But supposing it were possible to do so ?—Then the auditors would raise other difficulties. For instance, difficulties regarding the loans given on the personal security of the parties. He may not know most of those parties.

7064. *Lala Harkishen Lal.*—Apparently, Sir, the witness is referring to special audit. The ordinary auditor promised long experience of local conditions does not find it difficult to reveal the true state of affairs in any bank.

7065. *Chairman.*—Does an auditor even elected by his shareholders know every party ?—Does he not go by what the shareholders say ?—He does to a certain extent, but the difficulties are minimised because he knows a number of people doing business with the bank. If, on the other hand, you send down a special auditor to audit a bank from somewhere, he will have difficulty in assessing the true state of affairs. He may not know certain parties and he may say that they have not repaid their loans and thus he may mark them as doubtful debts. Now, all that may be correct from his point of view, but at the same time it is not true. Some years ago we had an auditor to make up our accounts. He classified a number of items as doubtful debts and I can tell you that they were all realised though some of the debts which he classified as good were lost.

7066. *Mr. Manu Subedar.*—Was he a special auditor ?—He was a chartered accountant.

7067. *Sir Hugh Cocke.*—With reference to the documents in the vernacular, would they be title deeds ?—Yes.

7068. Would there be any other kinds of documents ?—Yes, sometimes promissory notes.

7069. They may be in different vernaculars ?—Yes.

7070. And you do not expect the auditor to be well-versed in all the vernaculars of the province ?—He may be knowing one or two.

7071. Is it not desirable therefore to have certified translations in English from solicitors ?—We do not get such translations.

7072. But if your auditor asked for such translations from the solicitors they could be produced ?—Yes.

7073. *Chairman.*—Would not the difficulty in the case of an auditor elected by the shareholders be as great as that in the case of the special auditor ? Would not an outside critic be justified in suggesting that the auditors selected by the shareholders who complacently take things on trust are not the sort of auditors who could be expected to safeguard the interest of the shareholders ?—So far as my experience goes, the auditor is always very keen on saving his own neck.

7074. *Mr. Manu Subedar.*—The problem before us is that several banks that failed were being audited and obviously the auditor's report did not convey to the shareholders or to the depositors the true state of affairs which were really bad two or three years before the failure. Now what should we do in

order to give greater protection to the shareholders and the depositors?—My point is that we cannot make a fetish of this auditing business. We have to depend on the training and the integrity of the Management.

7075. But the auditor gives a picture of the affairs of the bank supposing there is a big fraud going on?—Yes, to a certain extent he does reveal such cases.

7076. You are opposed to the special audit which would also consist of a trained staff?—If those audit reports are kept confidentially, I would not object.

7077. *Chairman.*—And if the audit reports go to the Reserve Bank?—I will not object to that.

7078. *Sir Hugh Cocke.*—Take your own particular bank and your own personal experience. Do you consider that audit has failed to present the correct position to the shareholders?—I do not think, Sir.

7079. So, your shareholders are satisfied with the audit reports?—Yes, they are.

7080. *Mr. Lamond.*—With regard to these advances against title deed, etc., is it not your practice to send these deeds to your lawyers?—Certainly we do.

7081. Now, if you get a letter from your lawyers saying that he has examined the title deeds, can't you satisfy the auditor?—He will still raise objections. He will, for instance, refuse to be satisfied as to the nature of the deed. The lawyers will, of course, say that they have examined the deed carefully and find it correct but the auditor will express doubt as to the correctness of the signature.

7082. *Chairman.*—You say that the business of Indian banks are not conducted on the lines of Exchange banks or of the Imperial Bank where loans are for short periods and the values easily ascertained. Are not the loans of the existing Indian banks which are engaged in commercial banking, also mostly for short periods?—As far as our bank is concerned, the bills discounted are for short periods. The other advances are carried on for longer periods. I do not know about other banks.

7083. Are these advances for considerably large sums of money?—Yes.

7084. *Sir Purshotamdas Thakurdas.*—When you say that these loans, continue for long periods, you do not make them straightaway for 3 or 5 years. You give them for a year and then they are renewable?—Yes.

7085. If you are dissatisfied with the borrower, you have the right at the end of the year to call up the money?—Yes.

7086. Therefore can you really call them long-period loans?—They do manage to become long-period loans.

7087. Only with your approval and with your consent; otherwise they are liable to be called up at the end of the year or six months. Would it not be correct therefore to say that all your loans are for a period of six months or for a year, subject to renewal with the consent of both sides?—In Exchange Banks, for example, as each bill falls due, it is automatically replaced by others.

7088. *Chairman.*—Those are bills which correspond to hundis, we are talking of loans. These are initially for twelve months, but they are renewable with the consent of the lender and so far as I can make out, the position in regard to Exchange Banks is the same in regard to loans. As regards bills, the loan given for, say, 12 months may be renewed for another 12 months and so on.

7089. *Lala Harkishen Lal.*—You are using the word 'loan' for all advances. There are separate mortgage deeds, for example, hundis and loans proper. Except mortgage deeds, the others are for a fixed period only, the maximum being one year ?—Yes.

7090. *Sir Hugh Cocke.*—If I produce a title deed worth a lakh of rupees and I want a loan of Rs. 30,000, you advance Rs. 30,000 and you retain the title deed. What else do you take from him ?—We take a mortgage.

7091. To the effect that the amount would be repayable within a certain time ?—Yes.

7092. *Chairman.*—Would you also kindly explain what you mean by values being easily ascertained in the case of loans made by the Exchange Banks and the Imperial Bank ?—I refer to advances on promissory notes, shares or stocks which are easily ascertainable.

7093. Are you also referring to mortgage deeds, because you would be giving loans on promissory notes and their value would be equally easily ascertainable ?—Our securities are not of this nature. The values of Government promissory notes, shares or other stocks on the security of which Exchange and Imperial Banks advance are easily ascertainable.

7094. But I think you told us just now that the security behind your loans also was Government promissory notes and shares ?—No.

7095. Your security, generally speaking, is mortgage deeds ?—Mortgage deeds, personal credit or ornaments. We do a certain amount of business on the security of Government promissory notes or shares, but that is a very small portion of our business.

7096. When you grant loans on personal credit, do you not take a promissory note ?—Yes.

7097. Therefore there would be no difficulty in assigning a value to it ?—The value is the man's value.

7098. But there is a promissory note ?—The promissory note is for a certain figure : you may attach full value or no value to it, it depends on the man.

7099. Even the other banks you mention may, on occasion, give loans on personal security on promissory notes ?—Yes.

7100. *Dr. Hyder.*—Do you assess the value of ornaments on the basis of the gold or silver contained in the ornaments or their value as ornaments ?—On the basis of gold or silver contained in the ornaments.

7101. What is the difficulty you refer to then ?—The difficulty is to assess the quality of the gold or silver. Suppose I say the gold is worth Rs. 20 a tola, the party says it is Rs. 22 or 24 a tola, who is to judge between the two ?

7102. Do you not go by the market rate ?—The market rate is a different thing. We go by the actual worth of gold in the ornament.

7103. *Chairman.*—You say that the reports submitted by Government auditors have been found to be wrong and misleading. May I suggest to you that you are making a generalisation based upon an individual instance, as it has been pointed out to us that outside audit conducted by Government auditors in the case of Port Trusts, Municipalities, etc., has been found to be very helpful ?—I know of two cases, one referred to the audit of co-operative accounts and another to the Gaya District Board and I have read the replies given by Government in the Council. When one or two cases come up like that, there must be a good number which never see the light of day.

7104. That is your view. It may be the other way, *viz.*, that these are only the bad cases ?—May be.

7105. You say that a private banking firm receiving deposits from the public should be required to publish its accounts properly audited once a year. It has been pointed out in the Provincial Banking Enquiry Committee's reports that certain classes of indigenous bankers receive deposits from their friends and relatives. Would you require these indigenous bankers also to publish their accounts ?—Everybody becomes a friend when he comes to deposit money. I should expect the accounts to be audited.

7106. Therefore you would make no distinction between the two cases ?—No. According to Indian interpretation the term 'relatives' is a very wide one.

7107. If these private banking firms also do other business like trading would you require them to publish their accounts both in regard to their banking business and their other business separately ?—I am not at all very keen about the trading account.

7108. Therefore the account relating to the banking business should be kept separately from that relating to the trading business ?—Naturally.

7109. You say that foreign banks or banking firms should be allowed to open offices in India only under license. Would you kindly tell the Committee what are the objects underlying this suggestion ?—My point of view is that banks from foreign countries should not be allowed to exploit the country. They should come here and be of some help to us; first of all, they should bring their own money, they should be here not only to fix up sign-boards and make money out of us.

7110. Is that the only point ? This suggestion is not based with reference to any consideration arising out of the interests of the depositor ?—Yes. the balance sheets should also be a protection to the depositor. At present there is no restriction, a bank may come from any where. I remember the instance of a Japanese bank which closed its doors.

7111. You say that 50 per cent. of the funds of these foreign banks or firms employed in India should be from their country of origin. Seeing that funds employed by them vary considerably according to seasonal conditions, would you kindly state whether your suggestion is practcable ?—I do not see why it should not be. If they can raise funds to meet their seasonal requirements in the country, then they should be able to get it from their country of origin.

7112. But would a definite limit like that be workable, seeing that the requirement of money varies largely, say, month to month ? If, for example, the total amount of their borrowings in India were during the course of the year on an average 50 per cent. would that meet your requirements ?—I would want it always from day to day.

7113. You say that the activities of these foreign banks should be confined to the port towns. I take it that your suggestion is to restrict the operations of these foreign banks to the financing of the foreign trade of India —Quite so.

7114. If a part of the internal trade is connected with this foreign trade, would you kindly tell the Committee whether you would prohibit foreign banks from having any part in this internal trade ? I may illustrate the point by giving you a concrete instance. Supposing wheat is railed from Lyallpur to Karachi for export abroad, would you or would you not allow the foreign

banks to finance wheat as soon as it has been railed at Lyallpur ?—Yes, I would allow him to have an Indian agent there.

7115. You suggest that special privileges and concessions may be given to banks which satisfy a certain standard. Would you kindly explain what privileges and concessions you have in mind ?—The only privilege I have in view is the facility for re-discounting. Every bank wants money and cheaper money.

7116. You suggest that each provincial Government should allow one scholarship every year tenable abroad, to suitable candidates for the next three years and thereafter every alternate year for theoretical and practical training in banking. It has been suggested by the Indian Institute of Bankers that it is desirable to send young Indians abroad to study international exchange and the various problems connected with currency and exchange after these people have had a good training in banks in India. Would you kindly favour the Committee with your views on this suggestion ?—Yes, it is a good suggestion.

7117. Would you accept it ?—Yes.

7118. You say that under suitable safeguards cheques of approved banks may be accepted by all Government departments in payment of its dues. Would you kindly explain what you mean by 'approved' banks ?—I have in mind the Reserve or Central Bank working and it will naturally have a list of approved banks whose bills it may be re-discounting and whose accounts it must be auditing.

7119. You refer to banks approved by the Reserve Bank ?—Or any other institution or controlling authority which may be started or may be authorised by Government for the purpose before the Reserve Bank comes into existence.

7120. You complain about the difficulty in getting hundi papers. Would you kindly tell the Committee from whom these are usually obtained ?—In Patna, the provincial capital, there are one or two stamp vendors who stock hundis : otherwise one has to go to the treasury, put in a chalan and wait the whole day to get it.

7121. It has been suggested by one of the Provincial Banking Committees that these bill forms should be standardised and post offices should stock for sale these forms. Are you in favour of this suggestion ?—Yes, but why standardise the bill form ? Hundi paper may be supplied.

7122. You only want hundi paper and you want the post office to stock this and sell them ?—Yes.

7123. You are not in favour of the standardisation of the bill forms ?—I cannot say either way.

7124. *Mr. Manu Subedar.*—You know that under the Stamp Act the purchaser of every stamp paper has got to give his name if the post office sold the hundi paper under your suggestion. Would you want the names to be taken by the post office or would you like hundi paper sold as ordinary stamps ?—Names may be taken.

7125. *Mr. Khaitan.*—Suppose I buy hundi paper from the post office, my name is taken there and a neighbouring firm is in need of hundi paper, he cannot take that paper from me and use it. Can he ?—He can go to the post office to get one.

7126. But is there any particular advantage in the name being written on the hundi paper ?—I do not see any.

7127. If there is no advantage, why do you want the names to be taken down ?—No, I do not want it done ; but if it is wanted, I see no objection to its being done.

7128. You say that the Imperial Bank does not trust Indian banks, but the instances you quote in the next two paragraphs relate to the old Bank of Bengal. Would you kindly tell the Committee whether you have any concrete instances which support your statement so far as the Imperial Bank is concerned ?—Personally I think it is only a change of sign-boards and not a change of heart. The traditions are still there, and the methods of work the same.

7129. What we are concerned at the present moment is whether you have any concrete instance to give us which would support your statement so far as the Imperial Bank is concerned ?—No, our experience with the Bank of Bengal was enough ; we do not want to start it again with the Imperial Bank.

7130. You say that the Imperial Bank enters into active competition with other banks in the business of transfer of funds and advances. Taking first the transfer of funds, is it not a fact that the Imperial Bank is required by the Government to give remittance facilities to the public at certain prescribed rates and that the Imperial Bank allows other joint stock banks facilities for remittance at half those rates for transfers between the branches of those banks ?—Not always and everywhere. For example, at our Chapra office, they will only give that facility to us for transfers to Calcutta and not to any other place, like Bombay, and they insisted on our having a branch at both places. We are there on the same level as any ordinary merchant.

7131. In this connection, would you kindly explain your statement that the charges of the Imperial Bank for transfer of funds are too high and that the bank does not go with the market or control it ?—In the season when the crop movement starts, we can get drafts on Calcutta at 2 annas discount, while the Imperial Bank has always a fixed rate for transfers at ½ anna premium. When I can make 2 annas by buying hundis, why should I transfer funds through the Imperial Bank, who stand on their dignity and stiffness and ask for ½ anna ?

7132. But does not this show that the Imperial Bank does not compete with other banks in regard to remittance of funds ? The Imperial Bank has not a monopoly, so that when it suits you you can avail yourselves of other methods ?—But they are not always available.

7133. Are they more frequently available than not ?—No, they are available for a month or two months in the year.

7134. Then, apparently, the fact that the Imperial Bank is there operates to your advantage, because when the Imperial Bank rate is lower than what you can get in the bazar, you make use of the Imperial Bank ; when the Imperial Bank rate is higher than what you can get in the bazar, you make use of the bazar rate ?—I see no reason why the Imperial Bank rate should not also go down with the bazar rate.

7135. I was trying to find out whether this so-called competition of the Imperial Bank does not, as a matter of fact, operate to the advantage of a joint stock bank which has got to send remittance from one of these places where the Imperial Bank has a branch ?—Not always.

7136. *Mr. Lamond.*—I find that the Bombay Provincial Banking Enquiry Committee asked Mr. Gray, Manager of the Bank of India, Limited, this question "do any of your branches get any facilities from the Imperial Bank of India for remission of funds " and his reply was 'the Imperial Bank is very

reasonable with us in that respect'?—That was because Mr. Gray was there and not Mr. Pandit.

7137. *Mr. Manu Subedar.*—Another joint stock bank like yours told us that the branch of the Imperial Bank charges for collection of cheques on their branch, where the Imperial and joint stock branches are side by side, and also on demand drafts, so as to discourage people drawing cheques on the Indian bank and taking demand drafts on them. Is that your experience?—No.

7138. They are reasonable with you in that respect?—Yes.

7139. If I had my account with the Imperial Bank and paid in my cheque on your bank, there would be no collection charges?—No.

7140. If I got a demand draft on you from my Calcutta agent, it would be collected free?—Yes.

7141. So, that inconvenience you are not feeling?—No.

7142. But the other inconvenience about remittance you do feel?—Yes, the Imperial Bank tries to cut into our business.

7143. *Chairman.*—As regards advances it has been suggested by some witnesses that this competition between the Imperial Bank and the other banks has brought down the interest rate to the advantage of the public. Would you kindly give your views on this suggestion?—If the securities taken by the Imperial Bank are such, like Government promissory notes or approved shares, the rates would be brought down; otherwise the business always goes to the Imperial Bank as they can always get them at a much cheaper rate of interest than we can. The pick of the business is done by them.

7144. You say that the new branches of the Imperial Bank, in a number of places, serve no useful purposes and only cut into the business of local banks. Would you kindly give some instances where these branches of the Imperial Bank have cut into the business of the local banks and furnish the Committee with some more details about such cases?—We have our branches at Gaya and Chapra where the Imperial Bank also have opened their branches. The Imperial Bank have a large amount of deposits at these places some of which might have been at other offices, but about other business they are not doing much. They are only trying to get into our business.

7145. You have already said that they cannot touch certain classes of your business; they can only advance money on such securities as they are allowed to take under the Act. From what I could make out from your previous answers in regard to remittances, their presence is rather helpful to you than a disadvantage. Will you therefore kindly explain the extent of the competition they are having with you?—For example, at Gaya, they are advancing on ornaments up to Rs. 500 at 7 per cent. That is competing with us.

7146. And you used to make these advances at a higher rate of interest?—Certainly.

7147. *Mr. Manu Subedar.*—Has the competition been such, with regard to your bank or any other bank, as to force them to withdraw that branch from a particular centre?—Not to my knowledge.

7148. Then your complaint merely is that they take the plum of the business and the residue is there which they cannot touch?—Yes.

7149. Is it also your complaint that the Imperial Bank is actually able to lend out in a manner which satisfies the letter of the Act but not the spirit?—No.

7150. Have you come across any cases where the Imperial Bank have accepted as collateral securities two-name promissory notes which they are not allowed to do under the Act ?—No case has come to my knowledge.

7151. *Mr. Rushforth.*—Have they affected your deposits in these places? —Yes, to some extent.

7152. On what ground do they take some of your own deposits ?—I do pay a higher rate of interest, but some people want to go to Imperial Bank. Their savings bank rules are more liberal ; they allow withdrawal, practically, of the whole deposit if the depositor so wishes, while our rules restrict withdrawal.

7153. There are no restrictions on current account ?—No. Many people prefer the Imperial Bank. If the branch had not been there, we would have got the deposits.

7154. *Dr. Hyder.*—Before the Imperial Bank opened branches at Chapra and Gaya, did you have to pay a lower rate of interest on deposits than you usually pay ?—No, we are paying the same rate.

7155. *Chairman.*—Had your rates on advances to be reduced after the Imperial Bank came to Chapra or Gaya ?—To some extent.

7156. Have you got any statistics which would show what the volume of your loans and your advances and deposits at, say, Gaya or Chapra used to be before the Imperial Bank came there and what the volume now is ?—Of course we have an increasing volume of business.

7157. In spite of the competition of the Imperial Bank, the volume has been increasing ?—Yes.

7158. *Mr. Manu Subedar.*—Does it mean that you have cut some of the indigenous bankers or that the banking habit has increased ?—The banking habit has increased.

7159. With regard to your suggestion that foreign banks should bring 50 per cent. of their funds employed in India from their country of origin, do I take it that your suggestion is due to your feeling that India's savings should all go to Indian banks ?—Quite so.

7160. And the money saved in India on deposits with banks should go to Indian banks ?—Yes.

7161. A suggestion has been made to us that, following the rule in the United States, Canada and other foreign countries, there should be a restriction on the right of the foreign banks to take deposits in this country, *i.e.*, they should not be allowed to take deposits at all. What do you say to that ?—I would not go so far just now ; it would be too drastic a change.

7162. But you would not hesitate to make such restrictions as might be found necessary in the interests of Indian banking ?—Certainly not.

7163. If I told you that the Exchange Banks do not bring any resource from abroad to India, but that almost the whole of their advances are from Indian deposits, then under the 50 per cent. rule you would take away 50 per cent. of their deposits ?—Certainly.

7164. *Sir Hugh Cocke.*—It has been suggested to us by other witnesses that bank auditors should be auditors of at least 6 years' standing and they should not be recently qualified men. Do you think that auditors should be men of special experience ?—Yes ; we agree that auditors should be qualified men and with experience.

7165. On the question of doubtful debts, you remember Government made a change in form " F " in 1926. Government held that if banks provide

for a secret reserve in the case of bad and doubtful debts in form "F" that would suffice. Do you approve of the change ?—Yes.

7166. You spoke of the progress of your bank in spite of the fact that the Imperial Bank has a branch at your centre. Do you think postal cash certificates have affected your deposits in any way ?—No doubt it has affected to a little extent, but I do not think that has seriously affected the deposits in our bank.

7167. You agree that the progress of your bank is due mostly to general education, in banking habits and other things, of the people ?—Yes.

7168. And the withdrawal of the stamp duty on cheques might also have induced more people to have current accounts with you. Is that not so ?—Yes.

7169. *Mr. Devadhar.*—With regard to your remarks about audit and the quotation given by you under Appendix "A" do you say it refers to the audit conducted by the Bihar and Orissa Co-operative Federation ? Do these accounts that you refer to refer to the members of the Federation ?—I could not enlighten you about that.

7170. Were you ever a member of the Federation ?—No. I have not gone into the details of this matter. I was only concerned in the way in which Government auditors had done their business.

7171. Would you exclude auditors of the Federation from that charge ?—I know nothing about them.

7172. You have nothing specific to say about the mistakes pointed out by the Federation ?—No.

7173. *Mr. Sarkar.*—Regarding foreign banks, you say that 50 per cent. of their funds employed in India should be from the country of origin. Will you exclude funds deposited by their own nationals in India ?—All money received in this country should be included in the 50 per cent. I consider all deposits received in India by these banks should be included in that margin.

7174. *Mr. Khaitan.*—I would like to ask you some questions about the difficulties that Indian banks have met with in relation to Government. The first thing you have mentioned is about a building site being refused to you in the New Capital at Patna, but being given to the Allahabad Bank. It is really difficult to understand the attitude of Government in this matter. Do you really mean to say that when you applied for a site to Government you were refused and the Allahabad Bank got the same site later ?—I applied when Government acquired lands and I received a reply after about two years' time that the Government were considering the matter. Then I approached the Collector and he told me that these places were meant for professional people. Later on, one fine day I found that the building for the Allahabad Bank was coming up on that particular site which was refused to me.

7175. Were you ultimately given the site ?—I did not care to apply again and there were no other good sites available.

7176. After that plain reply from the Collector, you possibly thought the matter was closed but still later on the Allahabad Bank got it. Is that your point ?—Yes, that is my grievance.

7177. *Sir Hugh Cocke.*—How long after that the Allahabad Bank got hold of the site to which you refer ?—I think they got it in about a year's time after Government refused the same to me.

7178. *Mr. Khaitan*: And the Government did not even write to you later giving the option of having the site for you ?—They did not communicate with me at all.

7179. The next instance that you give is equally puzzling. You refer to the electrification scheme at Cuttack ?—It is more puzzling to me.

7180. Mr. B. Das practised as a consulting engineer in Bombay for several years ?—Yes.

7181. He belongs to Cuttack itself ?—Yes.

7182. He was a local man with local experience and he represents Cuttack in the Legislative Assembly ?—Yes.

7183. Now, Government in their original proposal offered to give a loan of Rs. 3 lakhs to Messrs. Octavious Steel and Company and in addition to that your bank was prepared to guarantee another loan of Rs. one lakh ?—The whole scheme submitted to Government was for Rs. 4 lakhs and we were to advance Rs. one lakh and Government Rs. 3 lakhs on the mortgage of the properties of the company.

7184. *Mr. Manu Subedar*: Who were to have the priority ?—Government.

7185. *Mr. Khaitan*: You know that a syndicate consisting of Dr. B.C. Roy, Mr. S. C. Bose, Mr. N. R. Sircar, Mr. N. C. Chandar and Mr. P. D. H. Sinha also applied for this licence of electrification of Cuttack and they were also refused ?—Yes.

7186. So far as this syndicate were concerned, they were not an inexperienced body but they have got valuable experience in doing business of that sort at Shillong, Gauhati and other places ?—Yes.

Chairman: We have already got all these facts before us and there is no use pursuing this point with the witness. It is entirely a matter which we shall discuss later.

7187. *Mr. Khaitan*: You said you were prepared to accept the second mortgage leaving the preference to Government to have first charge ?—Yes. It was a condition precedent that Government should have its first charge and we were to be satisfied with the second mortgage.

7188. You also refer to instances in the Gaya District Board. It takes my breath away to understand it. The arrangement seems to be that some firm of contractors got a contract from the Gaya District Board to do a certain kind of work. Is that so ?—There were several contractors and different works.

7189. I am only trying to understand the position. As I understand your statement, it seems to be that the contractors as they carried on their work would be financed by you ?—Yes.

7190. That is, that would be 10 per cent. per annum and ultimately when the work was completed, the District Board would pay you the money as they have the knowledge that you were financing them. Is that the position ?—Yes.

7191. Except the fact that the Gaya District Board was recognising your financial policy with the contractors, was there any separate or distinct or independent arrangement between your bank and the Gaya District Board ?—There was absolutely no such arrangement.

7192. How was this arrangement then considered so bad as to take the breath of Government officers away ?—I do not know.

7193. Do these contractors do the business independently of others with their own money ?—No contractor does any business without borrowing.

7194. *Chairman*: This matter has been referred to by the Bihar and Orissa Committee and I think this is one of the instances which led to the supersession of the Gaya District Board. Is that not so ?—Yes.

So, then, we shall leave the matter at that, and discuss it among ourselves later on.

7195. *Mr. Khaitan*: As you have made your ruling in regard to that matter, I do not want to proceed with that point. (To witness) There is another case of the Gaya Municipality to which you have referred.

Chairman: There are matters, about the elaboration of which we are not really concerned because the Bihar and Orissa Committee having gone into the matter thoroughly have recommended a change in the rules of accounts. If the Auditor General has laid down a rule in regard to this matter, it is not for us to go into it at this stage.

Lala Harkishen Lal: Am I to understand that we really cannot discuss the action of the Government here ? If the Auditor General passes a rule, can we not discuss his attitude here ?

Chairman: We can discuss the fact among ourselves.

7196. *Mr. Manu Subedar*: With regard to the Octavious Steel Company, is it a company registered in Bihar ?—It is a European company pure and simple having its office at Calcutta.

7197. *Sir Purshotamdas Thakurdas*: You heard this morning the evidence tendered by the Bengal National Chamber and you remember they advocated that the depositors should have a voice in the bank management and with that in view they suggested that the depositors should have one of their representatives to be a director of the bank. Now may I ask you how you view that suggestion as a banker of over 18 years' experience ?—I do not think this suggestion is practicable. If a man to day is a depositor, he may not have anything to do with the bank to-morrow and still he will continue to be a director ! And moreover, he may have only a very small deposit with a bank but still he will try to have his say in the bank management. My point is that if any body desired to be a director, he can very well become a shareholder and thus help in the development of the bank.

7198. You therefore do not favour that suggestion ?—I do not favour that suggestion.

7199. In your interview with the Bihar and Orissa Provincial Banking Enquiry Committee you referred to an advertisement for tenders for buildings at the Kanke Mental Hospital which specified that security would be accepted in the form of cheques on the Imperial Bank or on Lloyds Bank but not on Indian Joint Stock Banks. Is that not so ?—Yes ; the point is that the advertisement did not specifically exclude joint stock banks but it only mentioned the other two.

7200. Are these cheques certified cheques ?—No.

7201. A man may or may not have an account for that matter with a bank for purposes of operating through a cheque. Is that not so ?—Yes. This is so.

7202. Have you heard of any such instances of such restrictions being placed or is it a solitary case you have ever come across ?—This is the only solitary case. We followed this up and Government said that it was a mistake on the part of the steward of the hospital who mentioned these in the advertisement.

7203. You also refer to the fact that your bank alone is not permitted to cut bad coins when they are presented at the counter. Do other banks in your province enjoy this privilege of cutting bad coins ?—So far as my information goes, mine is the only bank which is thus excluded from enjoying such a privilege. As a matter of fact, I have received a letter from Government disallowing permission for our bank.

7204. Other banks in your province such as the Chota Nagpur Banking Association, The Benares Bank and other banks have been given this privilege. It is not therefore a discrimination made against Indian banks generally ?—I think it is not a discrimination against Indian banks generally, but it is a discrimination made against our bank particularly.

7205. *Mr. Manu Subedar*: Is it your knowledge that all European banks working in your province have got that privilege ?—The Imperial Bank and the Allahabad Bank are the only two European banks working in our province and I know they enjoy that privilege.

7206. *Sir Purshotamdas Thakurdas*: It is only a discrimination against your bank and not Indian banks in general ?—That is so. In all matters concerning our bank's relation with Government we invariably get the reply the unceremonious " No ".

7207. *Sir Purshotamdas Thakurdas*: Are there any more instances of this nature ?—No. I have not come across any.

7208. You say that the present position regarding credit facilities for producers, merchants and manufacturers is highly unsatisfactory. Credit facilities are no doubt available to certain classes but these are often found to be inadequate. Have you any views regarding the utilisation of the indigenous banker for the purpose of providing credit facilities for producers, merchants and manufacturers in the urban and the rural areas with which areas your bank is particularly interested ?—It is a very difficult question to answer.

7209. But do you agree it is a valuable question for this Committee to consider ?—Yes.

7210. Therefore is it not necessary for us to obtain the benefit of your long experience ?—It is for wiser heads than myself to advise. I can only say that Mahajans and shroffs may be able to finance the agriculturists and the smaller merchants.

7211. So you think that there would be a solution in that direction ?—Yes.

7212. I believe you remember the question which Mr. Khaitan asked the Bengal National Chamber of Commerce this morning while you were present. Do you think that if the indigenous banker observes all the restrictions common to other banks and enjoys the facilities open to those banks, he may be more useful than he is to-day ?—Certainly.

7213. May I ask whether you would be prepared to make the privileges which you recommend equally applicable to the indigenous banker as the other banks ?—Yes.

7214. So you treat the indigenous banker on the same lines ?—Yes, provided he satisfies the accepted standard and observes all the restrictions prescribed.

7215. *Mr. Lamond*: Will you please refer to your memorandum where you say "in the supply or exchange of currency notes and of silver, there is always trouble. The issue of notes is restricted on the supposition that these will be utilised for remittance purposes". Have you made any complaint

about it to the Imperial Bank ?—Yes. They say " we are prepared to supply you notes but you should not use them for remittance purposes ".

7216. And you give the assurance ?—I have to; otherwise they would not issue the notes.

7217. But you never fail to get them when you really want them ?—Sometimes there is trouble.

7218. Even if you give the assurance ?—Yes, even if I undertook not to use the notes for remittance purposes, they would be suspicious.

7219. *Mr. Khaitan*: I would like to understand in more detail your point about the documents accompanied by railway receipts, etc., and I want to know what facilities you require for the future, because our Committee is chiefly concerned with facilities for the future. You say you have to keep Government promissory notes with the Imperial Bank. Can you explain to me the whole position more fully ?—My point is that although these documents are accompanied by railway receipts, still the Imperial Bank would not help unless my bank placed Government securities with the Imperial Bank to safeguard against, I don't know what losses.

7220. If it is collection work, then the Imperial Bank certainly do not run any risk ?—They give me credit for that amount.

7221. First, your client discounts the hundi with you and then you rediscount the hundi with the Imperial Bank. Now, does the Imperial Bank require any margin for this ?—They give me credit for the full amount.

7222. Supposing you had promissory notes worth Rs. 10,000 with the Imperial Bank and supposing you give the Imperial Bank hundis worth Rs. 25,000 would the Imperial Bank rediscount the hundis for the remaining Rs. 15,000 ?—No. They will not. They will only rediscount the hundis to the extent of the security placed with them.

7223. In spite of the fact that the documents of titles are accompanied by the draft ?—Yes, in spite of that.

7224. In order that you may carry on hundi business, is it necessary for you to have recourse to the Imperial Bank because you have not got branches of your own Bank ?—I must go to them.

7225. In view of the fact that you have got to maintain a full deposit of securities with the Imperial Bank, is your hundi business reduced on account of that ?—We do not feel it.

7226. But you believe it is a hardship ?—Yes, if I were to withdraw the securities from the Imperial Bank for any other purpose there would be difficulty.

7227. And you do not consider it good banking business for a banking institution not to deal with other people without deposits ?—For an ordinary client there is no hardship. He has to deposit no security and he can get his hundi discounted more easily than our bank.

7228. *Chairman*: Am I to understand that while the Imperial Bank would require full security from your bank, they would rediscount the hundi for any merchant in the bazar without any security ?—Yes.

7229. Is it deliberate ?—It is.

7230. Is that the policy of the Imperial Bank ?—I think so.

7231. How long has this practice been in existence ?—It has been there all along.

7232. And do you apprehend that this difficulty arises out of the fact that you are competing with the Imperial Bank ?—Yes ; in certain matters of business.

7233. Is that the feeling with you ?—It is not for competition, they do not want to touch these Indian banks, they do not know what may happen.

7234. Is it because the Imperial Bank feel that you are competing with them in banking business that they do not want to give you the same facilities as to an ordinary trader or is it because of the colour of your skin or because of want of confidence ?—I do not exactly know what the reason is. As regards want of confidence, they would give the facility to the man in the street rather than help an Indian bank.

7235. *Mr. Khaitan* : When you present bills to the Imperial Bank for rediscounting, does the Imperial Bank also look at the signature of the drawer of the bill ?—Supposing there is a very big merchant in Patna who has discounted his bill with you and you present the same to the Imperial Bank for rediscounting. Now the Imperial Bank has got the signature of that big merchant and also your signature in addition. In that case would they still object to rediscounting the bill simply because it came through you ?—Yes.

7236. But you satisfy yourself before presenting the bill that the drawers are all good parties ?—Certainly.

7237. Could you kindly tell us if you have no objection, as to what is the turnover of your bank in a year ?—I think it would be about a lakh a month or say 10 lakhs a year.

7238. *Seth Haji Abdoola Haroon* : What rate does the Imperial Bank charge from the merchants ?—3 annas.

7239. And from you also 3 annas ?—Yes. And still they are refusing.

7240. *Sir Purshotamdas Thakurdas* : Why do you find it necessary to go to the Imperial Bank even when they do not give you any special facilities ? Is it because you have no branches of your bank doing business in other places ? —Yes it is for that reason.

7241. When the security which the Imperial Bank demand from you particularly is so galling, why do you not give the bills to the Imperial Bank for collection and then claim money ?—In that case, the rate would be higher.

7242. What will be the difference ?—One or two annas more.

7243. Which means practically that they compel you to rediscount the hundi with them even though you do not want money immediately ?—Yes.

7244. *Mr. Lamond* : I think they would charge you the same rate ?—No, Sir. I have often told the Imperial Bank Agent that I do not want money and have asked him whether he would charge me lesser rate and he never agreed.

Sir Purshotamdas Thakurdas : Either Mr. Pandit is under a misapprehension or the Imperial Bank is doing something which it is difficult to understand. I am personally not intimate with this part of their business. I think Mr. Lamond would know the system.

Mr. Lamond : What Mr. Pandit says is wrong. (*Witness*) I would be glad if I were wrong.

7245. *Mr. Lamond* : What is the standing of your bank ?—19 years.

7246. *Chairman* : Of course you are a joint stock banker. Is the indigenous banker under the same difficulty ?—He has not got those securities. The indigenous banker is therefore better off than myself. Even a small merchant in the street is much better off than myself.

7247. *Mr. Manu Subedar*: Does it have the effect of inducing the merchant to go direct to the Imperial Bank rather than come to you ?—Yes. Many people go direct. Only the Bank's way of doing business and the long hours the customers have to spend at the Bank make people come to me.

7248. But for that accident, it means that merchants would rather go to the Imperial Bank ?—Yes.

Mr. Buckley: Sir, I think there must be some mistake somewhere.

7249. *Dr. Hyder*: Has the same manager been there all these years ?—No ; there have been 10 or 12 agents ever since I started my bank.

7250. How long have you been doing hundi business ?—For the last 3 years.

7251. Did you have any trouble before the present agent took over ?—We had not had that business before.

7252. My object in asking you all this is to find out whether this is the accepted policy of the Imperial Bank ?—I can't say, but this is certainly their practice.

7253. *Sir Purshotamdas Thakurdas*: Could you kindly send us a short memorandum showing the rate which the Imperial Bank has been charging you for bills which you wanted to have rediscounted and for bills which you wanted to have collected ? Such a statement would help us much. (The witness promised to obtain the information from his office.)

Mr. Lamond: I will wire for that information, Sir.

7254. *Mr. Manu Subedar*: If you have no objection, could you give us just approximately your expenses of running a branch for a month ?—A new branch will cost about Rs. 300 to 400 a month.

7255. *Sir Hugh Cocke*: But its cost would increase later. Would it not ?—Yes, certainly with the increase of the staff.

7256. *Mr. Manu Subedar*: Will it come to about Rs. 1,000 a month later on ?—Nearly Rs. 800.

7257. *Sir Purshotamdas Thakurdas*: What do you look upon as a reasonable pay for a branch manager ?—Rs. 150 a month.

7258. With lodgings ?—Yes with free lodgings.

7259. And would the man be a graduate, a B. Com. or would he be a practical man who has obtained training in your bank ?—He ought to be trained in a bank or somewhere else.

7260. Would he be a graduate ?—May or may not be ; it would be better if he is.

7261. He should be able to speak and write English ?—Yes, correctly.

7262. *Witness*: There is a matter which I wish to bring to your notice about endorsements on cheques. We had some difficulty in regard to cheques endorsed in the vernacular and the treasury people insisted on a translation being made of the vernacular endorsements. We referred the matter to the Accountant General. Our point was that we saw no reason why we should be made to translate these endorsements. The matter was referred to the Legal Remembrancer and it has been decided that it must be done under the Devolution Rules. This is a point I would like the Committee to consider and I shall leave the papers with you.

Chairman: I am afraid with Devolution Rules and various high authorities we cannot do much.

TWENTY-FOURTH DAY.

Tuesday, the 23rd September 1930.

PRESENT :

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Sir HUGH COCKE, KT.
Dr. L. K. HYDER.
Mr. W. LAMOND.
Lala HARKISHEN LAL.
Mr. R. W. BUCKLEY.
Mr. JADU NATH ROY.
Mr. G. K. DEVADHAR, C.I.E.
Mr. NALINI RANJAN SARKAR.
Seth Haji ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Sir Joseph Kay, Kt., and Mr. T. Maloney, representatives of the **Bombay Millowners' Association,** were examined.

7263. *Chairman* : You represent the Bombay Millowners' Association? —Yes.

7264. You refer to the confidence engendered in the investing public by the successful management of the cotton and jute industries over a long period of years. Has the confidence of the investing public in the cotton industry in Bombay been sustained over a long period of years?—Yes.

7265. How long would that period be?—Ever since my time, 22 years.

7266. Later, you refer to "the growing public distrust of industrial movements". How would you account for such distrust in spite of the confidence engendered by the successful management over a long period of years, to which you have referred?—I think it is due to general world-wide depression which is affecting the Bombay cotton industry just as it is affecting every other industry.

7267. Is it wholly due to that cause? Did it not start before the world-wide depression started?—No, I do not think so.

7268. Therefore, would I be correct in assuming that up to twelve months ago there was no trouble over the arrangements which were in force in Bombay? —I think the world-wide depression commenced rather before that. The real trade depression, not quite throughout the world, but in most countries of the world, commenced four or five years ago.

7269. It was not a world-wide depression; I think it was confined to certain countries only?—With the exception of America, I think most countries were feeling the decline in trade which commenced four years ago.

7270. Have you heard of complaints regarding inefficient management of several cotton mills?—I have heard loose statement made on a good many

occasions regarding the inefficient management of cotton mills and I have never yet had them substantiated. The Tariff Board investigated this matter and I may quote from their report which says :—

> " ..... It is not any particular system of the management which is in any way responsible for the present depression. The system of remuneration of managing agents has in no way either caused or contributed to the depression in Bombay in spite of the fact that it is in that centre that the system of commission on profits which we consider the most satisfactory is the one most generally adopted.
>
> Though allegations of malpractices on the part of managing agents were made by several witnesses, no substantial evidence was brought forward in support of them. The authority quoted in all cases was merely rumour or statements which have appeared in the press.
>
> It is significant that when questioned in camera on the point, the witnesses who made statements of this kind were never able to give the names of more than one or two mills and those names were almost always the same ".

In addition to the Tariff Board, the Fawcett Committee, which sat after the Tariff Board, also investigated into these allegations made against the management of mills and came pretty well to the same conclusion. I have not got a copy of the Fawcett Committee's report, but that report may kindly be looked into.

7271. You state " so long as the industry continued to prosper, no difficulty was experienced in raising all the working capital required, but as soon as trade depression set in and the mills were faced with rising stocks and diminishing sales, public confidence which had proved so reliable an asset was lost, and a gradual withdrawal of deposits came to be made ". Are you referring to the cotton mills in Bombay or to all the mills in the province including those of Ahmedabad ?—We are only referring to Bombay, because we felt the depression earlier than Ahmedabad.

7272. But we have been told that in spite of the depression in Ahmedabad they are finding no difficulty in getting their finance from this source of deposits. As a matter of fact, they are now managing to get long-term deposits ?—I do not think the acute depression has yet reached Ahmedabad. In Bombay we have suffered from a great deal of industrial strife commencing in the year 1924. During that year we had a short strike of six weeks, we had one in 1925 a prolonged strike of six months in 1928, followed by an intermittent strike which lasted nearly six months in 1929. These periods did affect very seriously the workings of the Bombay mills and my submission is that as a result of these prolonged stoppages, we lost a lot of our markets to Ahmedabad. After all, if you take the production of 80 mills for six months off the market for two years in succession, it will drive business into other channels and it is my contention that Ahmedabad mills are benefitting by the prolonged strikes in Bombay. So the acute depression has not yet reached that place.

7273. Does this lack of public confidence to which you refer arise from the fact that the mills in Bombay cannot now pay the same interest on deposits which they used to, or does it arise from an apprehension on the part of the depositing public that in the present depressed state of the mill industry in

Bombay they may not be able to get back their deposits when they want to withdraw them ?—It is due to want of confidence that the mill industry is not so prosperous as it was four or five years ago.

7274. The public are afraid that if they were to deposit more money with the mills they might not be able to get back their deposits ?—In certain directions I think that is the case.

7275. Is it not a fact that in Ahmedabad the industry runs on finances received from the public and the managing agents with very little or no assistance from banks ? Can you tell us whether there is any difference in the position of the industry in Bombay and in Ahmedabad, if so in what directions, and what in your opinion such difference is due to ?—I think we have in Bombay more assistance from banks in the way of finance than in Ahmedabad. I can give you my figures. I have not got the Ahmedabad figures, but I have seen statements where it has been argued that Ahmedabad has had very little assistance from banks. As regards Bombay, the latest return for 52 mills shows that we have on loan from banks at the present time 4 crores 71 lakhs of rupees. It is more than what Ahmedabad has. I think the basis of the finance is the same, or has been the same, up to recent days, *i.e.*, we have relied to a very great extent on fixed deposits for our working capital, but we have evidently used the banks more than Ahmedabad if the figures are any indication. Out of the 4 crores 71 lakhs, 4 crores 39 lakhs carry the guarantee of the managing agents. I cannot account for the difference except that it may be advances against Government securities.

7276. *Mr. Lamond* : Have you the deposit figures for the same 52 mills ?—I would give it to you this way : our total unsecured loans for the industry as a whole in Bombay on 31st December 1928 were roughly 6 crores 95 lakhs.

7277. Some of this money may be the agents' ?—I shall submit those figure later.

7278. *Mr. Khaitan* : Is it not possible that some of the amounts included in 6 crores 95 lakhs are loans from banks unsecured ?—There is not a great deal of loans from banks unsecured in the Bombay mill industry.

7279. *Sir Purshotamdas Thakurdas* : To which year do these figures refer ? —The figure of 4 crores 71 lakhs is for 1930, the other is for 31st March 1929.

7280. Up to what period in 1930 does the first figure cover ?—Say 1st August 1930.

7281. Do you not think there is a little difference in having figures for one as on 31st March 1929 and for the other as on 1st August 1930, because during the intervening period the mill might have done worse and the confidence of the public cannot be said to be the same this year in August as last year in March? —That is true.

7282. Would it be possible to have figures in respect of both the items as on 31st March 1930 ?—It takes a long time to get these figures from mills.

7283. Can we have them for 31st March 1929 or 30th June 1929, for whichever period you can get the figures easily for the same number of mills ?—Yes, I have only figures here for 52 mills and I have yet to collect figures for another 30 mills.

7284. *Chairman* : If we take, say, 31st March 1929, can we get figures for all the mills?—I should be able to get figures for that particular date, otherwise I shall have to make new enquiries.

7285. In addition we want deposits on the same date and for the same number of mills ?—We could collect that.

7286. *Sir Purshotamdas Thakurdas*: And the agents' own money ?—I can give you recent figures.

7287. *Chairman*: If you could kindly put it in the same statement for the same period, it would be of great help ?—We will do that.

7288. *Sir Purshotamdas Thakurdas*: What is the agent's money included in 6 crores 95 lakhs ?—The amount of loans advanced to mills by managing agents is 7 crores 69 lakhs.

7289. *Chairman*: In addition you have the public deposits, or would they be included in the 7 crores 69 lakhs ?—The public deposits are in addition.

7290. It is really this figure then that is wanting for the 52 mills. If you want to give figures for all the mills, then all these figures would have to be adjusted ?—Yes.

7291. *Sir Purshotamdas Thakurdas*: Do I understand that the managing agents' own money is 7 crores 69 lakhs, double what the banks have advanced ?—Yes.

7292. And more than what the public deposits are ?—Yes.

7293. I understood you to say that the public deposits were 6 crores 95 lakhs ?—That is not for the same period.

7294. If it was 6 crores 95 lakhs for April 1929, roughly it may be the same now, so that the largest financiers have been the managing agents with their own money ?—Yes.

7295. I suppose this represents the managing agents' own money, not the money procured by the managing agents with their own guarantees ?—No.

7296. *Chairman*: Would you kindly send us figures completed for the same date and for the same number of mills representing, firstly, managing agents' own money, secondly, public deposits, and, thirdly, advances by banks including those granted on personal security ?—Yes.

7297. *Sir Hugh Cocke*: If it is no additional trouble, we would like to have debenture capital also ?—There would be no difficulty as regards that.

7298. *Sir Purshotamdas Thakurdas*: Would not that figure be in the printed balance sheet ?—We have it for December 1928, 2 crores 44 lakhs.

7299. Have you ever tried to get corresponding figures from Ahmedabad balance sheets ?—No, we have never received anything from Ahmedabad except summarised statements showing returns on capital. According to our consolidated balance sheet, our total loans, including debenture and other loans, amount to 11½ crores.

7300. *Chairman*: Have you any information to show that there has been any reduction in public deposits, say, in the last twelve months or in the course of the last three or four years ?—I can give it to you in the way of unsecured loans. In March 1924 our unsecured loans were 11 crores 19 lakhs; in March 1929, they were 6 crores 91 lakhs.

7301. *Sir Purshotamdas Thakurdas*: Have the bank loans gone up during that period ?—I am afraid we have not got the figures.

7302. *Chairman*: Has there been any reduction during this period in the facilities which the banks have been providing you with ?—I think banks have been very cautious and have been curtailing loans.

7303. You are no doubt aware of the position of the industry in other provinces of the country. Can you tell us how it compares with that of the industry in Bombay (1) as regards capital received from the public, and (2) as regards financial facilities afforded by the banks ?—I am afraid I cannot help you.

7304. *Sir Purshotamdas Thakurdas*: Do I take it that the Millowners, Association do not know the comparative position of the mill industry in other provinces ?—Not on this specific point.

7305. Can you tell us whether the industry in other parts of India has suffered in the same way, as far as capital received from the public is concerned, as the industry in Bombay or whether it has not ?—I am afraid I cannot help you, because when once you get to Ahmedabad which we have been discussing, you go to Cawnpore and in a lesser degree to Calcutta and Nagpur, which really is Bombay. I think the financing for the Nagpur and Sholapur mills is done from Bombay.

7306. *Chairman*: I have a recollection that the Central Provinces Banking Enquiry Committee have said that there has been no reduction in deposits with the Nagpur mills ?—Not with the Empress mills, but there are other mills.

Sir Purshotamdas Thakurdas: There are only two big mills in Nagpur.

7307. *Chairman*: Is this system of obtaining finance by deposits in force also in Cawnpore and Calcutta ?—I am afraid I cannot answer the question.

7308. Have you any information in regard to financial facilities afforded by the banks ? I suppose you would repeat the same answer ?—We have no information on the specific point.

7309. *Sir Hugh Cocke*: You said that banks have become more cautious during the last four or five years. I take it that this statement would not apply to advances on hypothecated stocks ?—No, I do not think so. I have not heard of cases where banks have refused business against stocks properly hypothecated with the managing agents' personal guarantee. I do know of cases where, previously, banks have lent to mill companies with the managing agents' guarantee and without hypothecation of stocks, which they have not done during the last 3 or 4 years.

7310. *Mr. Lamond*: Have any of these banks raised the margin of 20 per cent. on stocks ?—No, but I think this is a case where perhaps banks might help the industry a little bit. If a margin of 20 per cent. on stocks and 40 per cent. on stocks in process is a safe margin when the price of goods is twice what it is to-day, it appears to me that it is a big margin to keep when you get down to your present low values of manufactured goods and raw materials.

7311. *Chairman*: If the banks are apprehensive that the price may go down further, would they be justified in reducing the margin?—The banks have always the right to call up. But with regard to cotton, at present prices of Rs. 145 a candy and with 20 per cent. margin, it rather limits one's finance. I do not think there is so much fear of fall at 145 as there is at 245.

7312. Is the Imperial Bank also behaving in the same manner ? They do not want to reduce the margin ?—I do not want to put it that way.

7313. All I want from you is information on a question of fact and not any criticism ?—As far as I know, the Imperial Bank has made no difference in their facilities against hypothecated stocks.

7314. That is, they have not reduced the margin.—No.

7315. Have they increased the margin ?—They have made a difference they have kept the margin at 20 per cent., but on stocks in process they have made it 40 per cent.

7316. *Mr. Khaitan*: We have been discussing the question about hypothecation of stocks. What is the practice in Bombay about advancing money ? Is it on the security of stores and coal ?—My experience is that advances are made both on the security of stores and coal.

7317. Up to what margin please ?—Up to 20 or 40 per cent.

7318. *Mr. Lamond*: Advances are made against coal by the Imperial Bank up to a margin of 20 per cent. and stores are not included in calculating at all ? —I know of several instances where advances have been made on the security of stores as well by other banks.

7319. *Mr. Khaitan*: To which banks are you referring ?—The Indian joint stock banks.

7320. Do Exchange Banks also advance money on the security of stores in Bombay ?—I know of one or two cases where they have advanced money against the security of mill stocks.

7321. Are the Indian joint stock banks in a position to advance freely or only up to limited amounts ? Would the mills be able to get their full requirements from an Indian joint stock bank alone ?—I do not think that the whole financing of a mill is done by one bank, but against the hypothecation of stocks any number of banks advance loans.

7322. I would like to know whether the resources of the Indian joint stock banks are limited or whether they are able to finance without any limit.—It is no doubt true that their resources are limited, but I take it that a bank will only lock up its resources to a limited extent in that particular kind of business.

7323. *Mr. Devadhar*: You said that the Ahmedabad mills are able to attract local capital for their working which I believe is not entirely the case with regard to the Bombay mills. Is that not so ?—Yes.

7324. If that is so, is it due to the fact that the management of Bombay mills has been inefficient whilst the reverse is the case with regard to the Ahmedabad mills ?—I will not answer the question myself but will refer you to the report of the Indian Tariff Board as given in page 119. Expenses of management for Bombay per spindle per day is stated to be 1·51 pies whilst for up-country centres it is put at 2·24 pies. I think that gives a clear reply in regard to your suggestion of inefficiency in management. The overhead charges per loom per day after covering all other expenses including insurance, supervision, salaries, office expenses, etc., work up to 60·36 pies in Bombay whilst in up-country it works up to 70·88 pies.

7325. *Chairman*: Do the up-country centres include Ahmedabad ?—No.

7326. *Sir Purshotamdas Thakurdas*: In regard to other figures given in the report of the Tariff Board especially in regard to the management charges, I find the reverse is the case ?—What I am trying to point out is to repudiate this charge of inefficiency which is laid at the door of the managements of the Bombay mills. We do not lag behind these up-country mills but no doubt they score over us in some directions.

7327. *Mr. Devadhar*: My real point is how the mill directors in Ahmedabad are able to attract deposits from the public while the Bombay millowners find it difficult to do so ?—I thought I made my position quite clear in reply to an earlier question that the mill industry in Bombay has been suffering losses during the last few years and that is the main reason why the public have lost

confidence in the mills. These losses in the main have been brought about firstly by industrial troubles and strikes which happened in 1924, 1926 and 1928 when there were several stoppages. In 1929 we had a partial strike for about 6 months. When you get stoppages of the industry of that description, it is a serious matter and it is difficult to gain public confidence. While Bombay has been suffering like this, Ahmedabad has naturally been scoring. After all, Ahmedabad has been prosperous all through and they naturally are able to attract fixed deposits from the public without any trouble just as we in Bombay have been able to attract public deposits in prosperous times.

Had there been any strikes in Ahmedabad ?—Very few.

7328. Is that due to the fact of better relations that exist between mill-owners and workmen there ?—I do not know whether you really want to go into this matter.

Chairman : Mr. Devadhar, I would put it to you that this is not a matter for us to go into, as a separate Government Commission is going into such matters.

(Witness) I could say this—that the relations between the mills and the workmen in Bombay are quite good.

Chairman : We need not pursue the matter as it does not come under our purview.

7329. In Bombay, have you ever in your history managed to meet all your requirements from public deposits without having recourse to banks ?—I am afraid I cannot reply to that question generally.

7330. It is no doubt a difficult matter to say, but we have heard that in Ahmedabad for the last 25 years the mills have been able to finance themselves with the public deposits that they are able to command, without any large recourse to banks ?—I can only speak about my concern in regard to this matter that we have had no recourse to banks and we had thoroughly depended on our own deposits for some time. In the main, Bombay mill industry before it struck these difficult times did finance itself through the medium of public deposits. That is only a statement made from experience, but not with any reference to definite figures.

7331. Have you any information about the position in the jute industry in regard to these financial facilities and the capital received from the public ?—We have no information.

7332. I was told by a gentleman interested in the mill industry in Bombay that the Imperial Bank in making its advances on coal, makes a discrimination between the European mills and the Indian mills in general. Is that your experience in Bombay ?—In the Bombay mill industry, coal plays a very minor part because of the electric energy which we use in the working of the mills.

7333. You state the high rates at which Government have been borrowing money on long-dated treasury bills have seriously curtailed the ability of the mills to attract deposits. Will you kindly give us statistics showing the volume of deposits which the mills attracted before the alleged competition of the treasury bills, the average rate of interest allowed by the mills for such deposits and the shrinkage in deposits during the years subsequent to the issue of treasury bills ?—It is rather difficult to collect that information for you. Our trouble is, up to now we have kept no separate record of deposits. All our records are under the heading of unsecured loans.

7334. You further state that Government have competed with bank deposits and that therefore banks have had either to refuse to advance monies to mill companies or to do so at enhanced rates of interest. Have you any information as to the volume of bank deposits that have gone down owing to the cause you refer ?—I cannot explain that. Naturally there has been a certain amount of competition with these increasing rates of interest.

7335. I can quite understand the competition if the bank deposits have gone down and for that reason banks are unable to finance you to the same extent. Then from the point of view of the mill industry it would be a legitimate complaint ?—I do not understand that going in in our memorandum. I am sorry for that.

7336. On the other hand we have been told by an experienced banker that the chief reason for the want of adequate support to the industry from the banks is that it is not a profitable industry at present, that as year after year there have been losses and reduction in capital, there has been a fall in the value of the securities held by the banks and that it is for that reason that the banks are reluctant to make advances to some of the textile industries. Does this statement coincide with your experience ?—I think that is so. I quite agree with this statement. It is only reasonable for a banker to take caution if an industry is losing like the Bombay mill industry which has been losing during the last few years.

7337. You state that the drawback of high margins demanded by banks on loans against stocks in process and in godowns would be considerably mitigated if there were warehouse companies to keep stocks and advance moneys on them at an appreciably smaller rate of interest. It appears you think the establishment of such warehouses would lead to a reduction in the margin and in the rate of interest. Have you any information regarding the operations of the warehouse companies in America and Japan to which you refer ? Does such information justify the hopes that such concerns would be able to advance moneys at rates of interest lower than those charged by the banks ?—We have no definite information to give you on that. It is only a general statement and that has been arrived for this reason. If warehousing companies were organised, they could first of all reduce the working expenses and they could take advantage of the fluctuating money market to borrow at certain lower rates and they will also be in a position to lend money at lower rates of interest. I believe in England and America these warehousing companies are a speciality and firms and companies find it advantageous to deposit their manufactured goods in the warehouses and they do get quite good terms of finance for short periods.

7338. Where do you deposit your goods ?—In our own warehouses.

7339. Therefore if you have to go to the warehouses of another company you have to pay charges ?—Yes.

7340. Whether that additional charge would or would not exceed the benefit from the other sources you have mentioned—that is my point ?—I should not think so, if the warehousing is done on proper scientific lines. If it is done by a company or firm or by mills mutually agreeing with each other, they could borrow call-money at 2 per cent. and they could also finance the whole stocks and warehouses.

7341. Where would you have these warehouses—in Bombay ?—Yes. It will be convenient if these warehouses are established at railway centres.

7342. Would that not be an expensive construction to establish a warehouse in Bombay ?—I do not think so.

7343. At the present moment, the mills warehouse their goods in their own godowns ?—Yes.

7344. *Mr. Sarkar*: You complain of 40 per cent. margin against stocks in process. Would you let me know how your warehousing system will help the stocks in process ?—I think it would ; the manufactured goods might help you.

7345. *Mr. Lamond*: Your point is to get away from the managing agent's guarantee. Is it not ?—That is our idea. By this process we get finances without any guarantee of the managing agents.

7346. *Chairman*: I think the intention here was that they should have their own warehouses because they talk of large capital resources ?—You could not finance on stocks unless you have proper financial resources.

7347. But they would be able to get their acceptances discounted by other banks. I think that is the system in America ?—I do not know much about the actual details prevalent in other countries.

7348. I put the question to you simply because you refer here to your experience of American conditions ?—That is only a general statement.

7349. *Mr. Khaitan*: I myself do not know the system prevalent in America ; but do you advocate that there should be a warehousing company which would stock the goods and be able to advance money on that stock ?—Yes.

7350. For that purpose, it would be necessary for the warehousing company to have a large capital of its own and they would be able to borrow money on the security of those stocks and they would also have rediscounting facilities. That would be more or less in accordance with banking principles. Is it not ? —Yes, there will be no trouble. So long as goods are there, the warehousing company will be able to borrow money just as any mill company is able to do at present on the security of its stocks. I agree that these warehousing companies should have a fairly large capital to begin with.

7351. I was only trying to find out whether we can bring American practice into this country ?—I cannot at the moment give you any particular details in regard to that. I can give you a printed copy of the regulations with regard to the existing American system.

7352. *Chairman*: Can we have a copy of that ?—Yes. Here it is. (A copy of this was handed over to the Chairman.)

7353. You add that "the storage of cotton, etc., undertaken by these warehouse companies in America on behalf of merchants and the large facilities given to them in the matter of charges and all incidental expenses connected with the storage have proved to be of considerable assistance in enabling merchants to move their stocks under conditions which are not so onerous as those imposed by the banks". Can you give us an idea of the various facilities to which you refer ?—We will get the information for you. It is generally in the form of newspaper reports as to how these companies are operating, but we will collect the detailed information for this Committee.

7354. You state that apart from Government and other Trustee securities deposited with banks, it is not uncommon for them to demand and obtain from mill companies the joint promissory note of the company and its managing agents as collateral security for advances made. Is it your experience that the guarantee of managing agents is usually insisted upon in cases of advances secured either against liquid assets or against Government and Trustee securities ? Or are such cases exceptions rather than the rule ? Can you cite a few case in which the guarantee of managing agents was demanded as collateral

security for (1) advances made against gilt-edged securities and (2) advances made against hypothecation of stocks ?—This should not have gone in in our memorandum. On page 3 we say distinctly " apart from Government and other securities ".

7355. Therefore, in regard to Government and other Trustee securities the guarantee of the managing agents is not demanded ?—No.

7356. And in the other cases ?—That is usual, even when the goods are hypothecated ; the managing agents' personal guarantee is not quite enough in the Bombay banking circles.

7357. Even if there is a hypothecation of stocks ?—If the stocks are pledged to the bank with its name on the godown, then the case of guarantee does not arise. In ordinary times you may want finance against stocks but you may not want to put them in the bank's godown for the sake of convenience because the goods are going in and coming out at all times.

7358. *Sir Purshotamdas Thakurdas* : A good lot of raw cotton is stocked at Bombay in possession of banks and the raw cotton moves as fast as the manufactured goods. There the arrangement has been found to be quite feasible. So there will be no difficulty in regard to the export of raw cotton from Bombay ?—I do not say it is difficult. I say it is only a matter of convenience, Where you have a mill making 30 different kinds of cloth and the bales have to be sorted out, it is more convenient for the mills to have their own godowns and have a hold on them rather than to use the banks' godowns.

7359. *Chairman* : If the mills prefer to adhere to their existing custom, are they justified in making any complaint about the matter ?—I do not think, Sir, that it is equally feasible.

7360. *Sir Purshotamdas Thakurdas* : May I suggest that it is simply due to the fact that they feel that it lowers their prestige in the eyes of others to take delivery of the yarn or take delivery of the cloth ? I th nk this is the main reason ?—I think it is much more difficult to handle a great variety of cloth in big blocks. I say it is more convenient to have your own godown.

7361. *Mr. Khaitan* : In the case of joint stock banks when they advance money, if they pledge the goods, is it your experience that they do not take the guarantee of the managing agents ?—In the case of cotton mills all the banks that I have had experience of do take the managing agents' guarantee.

7362. Have you got any experience of any loan transaction of a bank if the goods are pledged ?—I do not know if there is any case in Bombay. There must be good many cases. Sir Purshotamdas Thakurdas has pointed out the case of cotton only.

7363. *Chairman* : Mr. Khaitan's point is this. You have said that in the case of the Imperial Bank if the manufactured goods are pledged with the bank, they do not demand the personal guarantee of the managing agent, but in the case of other joint stock banks if you pledge your manufactured goods with any one of them, would they still require the personal guarantee of the managing agent ?—I only made my statement regarding banks in general. I do not specify the Imperial Bank.

7364. *Mr. Buckley* : Is it not one reason, and probably the main reason, why managing agents prefer to give their guarantee and merely hypothecate the stocks, instead of pledging them, without any guarantee, and having the bank's board put up is simply this that it is the duty of the managing agents to see that the requisite security is always maintained ?—That is quite true.

7365. If the bank demands a safe margin, the managing agents in giving their personal guarantee are not really running very much risk ?—That is so.

7366. And one of the reasons why banks do ask for a fair margin is to avoid the unpleasant business of having to call upon their borrowers to put up further margins in times of depression ?—That is true.

7367. *Chairman* : If convenience is the main reason, I do not see the point of the complaint made by the mills. You have said in your memorandum that " apart from Government and other Trustee securities deposited with banks, it is not uncommon for them to demand and obtain from mill companies the joint promissory note of the company and its managing agents, as collateral security for advances made. The main burden of financing the industry thus falls on managing agents, and weighs especially heavily in times of difficulty and distress ". I understand you are making a grievance against the present arrangements. The present arrangement, as I understand it, has been especially to suit the convenience of the mills. That being so, where is the point of the grievance ?—Let me turn it over in my mind for a while, Sir.

7368. *Mr. Khaitan* : Mr. Buckley asked you the question that this system of hypothecation is devised for the convenience of the mills and therefore there should be no complaint. Do you not think that there is this difficulty that arises when the guarantee of the managing agent is taken, the stability, the standing, the position and the worth of the managing agent is also taken into full consideration by the bank before its guarantee can be accepted. Does it not follow therefore that if the guarantee worth 10 lakhs is taken the bank will believe that the managing agent is worth at least 15 lakhs ?—The bank would not take the managing agent's signature unless the man was worth something.

7369. Mr. Buckley suggested that it is only for the sake of ensuring that the goods are there that the guarantee of the managing agent is taken, but in actual operation, if a managing agent is perfectly honest and his honesty is beyond dispute and the mill has got goods worth say 15 lakhs to hypothecate with the bank while the managing agent is not worth more than say 2 or 3 lakhs and he wants an advance from the bank of 10 lakhs on the security of goods worth 15 lakhs not pledged but hypothecated, would not that difficulty arise ?—The bank always says " the value of your goods is.....less 20 per cent ".

7370. Don't you think that a certain amount of hardship is involved in the case of a managing agent who himself is worth only 2 or 3 lakhs but who wants an advance on the hyphothecation of his goods of 15 lakhs ? Is he not placed in a rather unfavourable position as compared with the managing agent who is worth say 20 lakhs ?—Obviously the man is in a different position.

7371. *Mr. Buckley* : If a managing agent is only worth Rs. 2 or Rs. 3 lakhs and the mill wants an advance of 10 lakhs, I put it to you that the bank would take everything into consideration, first of all the nature of the security hypothecated by the managing agent and secondly the margin asked for. The bank would never expect the managing agent to have to pay up anything like the full amount of the advance.—It would give him credit for the stocks that are there. The managing agent's personal guarantee does not come in until after the realisation of the stocks ? The one trouble about pledging is that if a mill, or a group of mills, simply manufactured and immediately put the goods into the godown under pledge to a bank, the possession passes and I take it that the mill agent loses control of his goods. The right of selling and disposing of the goods falls on the banker.

7372. *Sir Purshotamdas Thakurdas:* Why ?—Because he has totally pledged his goods and they become the property of the banker.

7373. But that does not mean that the banker will dispose of his goods ?—If the banker says that this is all the extent he is prepared to advance to the mill and that the stock must be moved, I take it that the right of selling them falls on the banker and goes out of the hands of the managing agent.

7374. *Mr. Lamond:* The right of selling still rests with the mill. What would happen in that case is that the bank would take note of what is put in the godown. Have you not cases where you have had to force a mill to sell ?

7375. That is why we take possession. But do you not take possession when you put your name on the godown and put your own lock and key ?

We do not control sales.

Sir Purshotamdas Thakurdas: What the witness said gave the impression that there was a special handicap attached to the pledge system.

7376. *Mr. Lamond:* In the case of pledge, you could put as much in the bank as you could under hypothecation. Stocks in process could not be put in ?—Does not possession pass when you pledge your goods to a bank ?

7377. You have an agreement with the bank that you can move when you require them. Our man is there and gives you the goods you want for sale and takes note of what you put in ?—That is a matter of convenience in disposing, but my point is that you do give possession of your goods to the bank. It does not get over my difficulty of the difference between hypothecation and pledge.

7378. A pledge means that it is in their physical possession, hypothecation means that they have no possession ?—But in the case of a fall in price they have the managing agents to fall back upon. In the case of pledge, you have only got the mill.

7379. *Mr. Lamond:* If the market rate goes down, the bank has the mill as well as the managing agents to fall back upon, but in a pledge you have the possession of stocks and the bank will only fall back on the mill.

7380. *Chairman:* We come back to where we started. If the hypothecation arrangement is a more convenient one from the point of view of the mills, whatever the reason may be, where is the point of the grievance ?—The point of the grievance is that one does not want to pledge all his goods to a bank and hand over their possession to somebody else.

7381. Whatever disadvantage he may suffer by hypothecation, he has got certain advantages, the one weighs against the other and therefore the mill prefers hypothecation to pledge. If that is so, I again come back to my question. If from the mill's point of view it is preferable to hypothecate then where is the point of the grievance ?—The point of the grievance, as I have tried to make clear, is that in the one case you have still possession of your goods with responsibility; in the other case, you hand over possession of your goods to a bank which has the right to sell them as it pleases.

7382. But there are two alternatives, either you want to keep possession of the goods or you want to hand them over to the bank. You prefer to keep the goods in your possession. It is quite possible that by pledging you may on occasion (not normally) have to subscribe yourself to certain disabilities which you would not have to face if you had only hypothecation. Therefore it is a question of choice, and if you take the choice of hypothecation as against the choice of pledging, I suggest to you that you have not established the

point of your grievance ?—I might explain a little further. No mill will pledge if it can avoid it. But in the case of a large number of mills in Bombay our experience has been that it has led to forced sales. There are special difficulties in the case of pledging.

7383. Would you send us a few cases of forced sales ?—I have to ask the permission of managing agents. I think your banking experts would give you some experience.

7384. In fact we have had evidence from the banks ' point of view which shows that there is nothing in this grievance. The two options are before them and if they will not take the one, but prefer the other, how can a bank or anybody else hold them up ? Can you give us any cases of forced sales during the last, say, three years ?—I shall make enquiries and place the matter before the managing agents concerned.

7385. You cannot give us any assurance, but you will try to send them ?—Yes.

7386. You have referred to the losses sustained by managing agents. It has been stated that some of them provide finance to the cotton mills in consideration of being appointed agents for buying raw material and selling or distributing the products of the industry. Can you give us any information as to the extent to which such practice prevails in Bombay ?—I do not know of any cases where a firm in Bombay has been appointed agents for a cotton mill in consideration for purchase of raw material. If I may put it the other way, I do know of cases where firms of managing agents have had interest in the buying and selling agencies.

7387. *Sir Purshotamdas Thakurdas :* It is the other way round, but the result is the same ?—Yes, but I might say it is not general.

7388. *Chairman :* You observe that it is a moot point whether something could not be done to aid the establishment of investment trusts or financial corporations at the present juncture when national sentiment is so eminently in favour of helping national industries. But what about " the growing public distrust of industrial investment " to which you have referred in the earlier portion of your memorandum ?—As I say, it is a moot point.

7389. Apart from the question of the sentiment in favour of helping national industries, it has been stated that the idea of an investment trust is altogether novel in India and that it is not possible to get public subscriptions for such institutions in this country. From your experience of public investments in industries do you consider this a very pessimistic view ? Have you any information regarding the working of such trusts in other countries ? Can you suggest the lines on which such trusts can be started and developed in this country and how associations such as yours can assist such a movement ?—I am afraid not. It is the Industrial Commission who expressed the view about investment trusts.

7390. You have quoted the view expressed by the Commission. As regards the Industrial Trust or Financial Corporation; they say : " it is, in its nature, too directly concerned in the success of particular undertakings to be a suitable instrument for the general advancement of industries." They do not support it, but it is y u who support it ?—Something can be done to aid their establishment.

7391. Therefore I am trying to pick your brains for ideas as to how it can be done ?—I do not think the Association as such has ever gone into the question of the establishment of industrial trusts or financial corporations,

but they think that the last words in the matter did not rest with the Industrial Commission and during the course of your investigations you might obtain some later information as to the possibilities of these Corporations.

7392. I was trying to find out whether your Association have any constructive suggestions to make in this direction ?—None at all.

7393. You state that in any large scheme of industrial re-organization or amalgamation, such as is contemplated by several millowners in Bombay, the establishment of industrial banks would fulfil an important need of the hour in helping forward the successful inauguration of such a scheme. Will you kindly explain to us the specific nature and extent of the financial assistance that you would expect such a bank to render for the furtherance of the scheme ?—Assuming that there was an amalgamation of the Bombay mills, I think help would be required to finance the manufactured stocks, raw material and stocks in process, which would be taken when a merger took place. The assumption in the case of a re-organization is that your block will be written down to present-day values or under present-day values, so that an industrial bank undertaking this business would have security in the way that the block account would be unencumbered. If the market went against the new merger, a debenture could be raised on block, a portion of which could be given to the bank financing the new merger as security. That is where we think help could be given when you come to re-organize an industry by an industrial bank or some other existing institution.

7394. Therefore for that purpose the establishment of an industrial bank is not essential. You add at the end of your answer that the same assistance might be rendered by an existing bank ?—We speak generally of industrial banks, we do not make a great point of the establishment of an industrial bank.

7395. You say that "the establishment of industrial banks on the lines indicated by the Industrial Commission would fulfil an important need of the hour." If an existing bank could also serve the purpose, would the establishment of an industrial bank *fulfil an important need of the hour* ?—It would, if another bank would not undertake this business.

7396. There again it is a question of security. If another bank would not undertake it on account of the doubtful nature of the security, you would want an industrial bank to undertake it ?—Not necessarily, because banks may have their rules and regulations which they would not deviate from. An ordinary bank would not lock up a certain portion of its funds in certain types of business, whereas if it were an industrial bank formed for the development of an industry, it might suit it to undertake that particular type of business.

7397. That would be the advantage in your opinion ?—Yes.

7398. Will you kindly tell us what scope there is, apart from the reconstruction of the cotton industry to which you refer, for an industrial bank in the province of Bombay or in the country and what possibilities of industrial development you envisage with the assistance of such a bank ?—There again we are not strongly advocating the formation of an industrial bank. But I can give an instance or two, *e.g.*, the sugar industry, where an industrial bank might render useful aid, and there must be other small industries which an industrial bank could help which have been run on reasonable lines and which need assistance owing to the depressed times they are passing through.

7399. You were really referring to what we have heard called middle-sized or small-sized industries ?—Yes.

7400. Do you suggest that such a bank should finance also the current requirements of the industry, *e.g.*, short-term advance ?—I think that where banks might help in these depressed times is in the purchase of raw materials. Take, for instance, cotton where there have been heavy falls in price. Certain mills which ought to be in a position to take advantage of this drop are unable to do so owing to their finances and an industrial bank or some other bank might come forward and help a mill to make favourable purchases in cotton in order to enable it to average down its price. After all, when you get a big drop such as we have had in cotton, everybody connected with cotton must have some high-priced material which they are unable to get rid of.

7401. But I thought, in reply to a previous question, you said that the advantage of an industrial bank would be more in regard to middle-sized of small-sized industries, *e.g.*, sugar. Would cotton be a very apposite illustration ?—The reorganization of the cotton industry would come under the same heading.

7402. That is to say, if that bank were to take up the work of re-organization of the cotton industry, it might also help the cotton industry to acquire stocks of cotton at low prices in advance of requirements ?—Yes.

7403. Would you favour the establishment of an all-India industrial bank or the establishment of provincial industrial banks for different provinces where the need for such an institution is felt ? What in your opinion should be the initial paid-up capital, firstly, for an all-India industrial bank and, secondly, for a provincial industrial bank, say, for Bombay ?—As I have said before, our Association do not make a strong point of this industrial bank and such being the case, I am afraid I cannot help you in giving a reply to this question.

7404. *Mr. Khaitan :* You have twice or thrice said that you do not make strong point of the establishment of an industrial bank. But the statement submitted by your Association, which I believe has been adopted by your Committee, seems rather strongly in favour of the establishment of an industrial bank. I should have thought that the quotations from the Industrial Commission have been absolutely adopted by the Millowners' Association as part of their argument ?—I have already stated that such a bank might help in connection with the re-organization of the mill industry.

7405. *Chairman :* In the whole of the memorandum you will not find any definite statement as to what the views of the Association are on either of the points we have been discussing. I first tried to obtain some definite views about investment trusts, to which the witness referred to the passage that 'it is a moot point, etc.' About the other point the memorandum says 'in considering the best class of agency for the provision of initial and current finance for industries, the Industrial Commission debated two possibilities.' Having done so, they quote *in extenso* from that Commission's report without committing the Association to any definite expression of opinion. That is why I was trying to find out what the Association had really in mind. Does your Association definitely recommend the establishment of an industrial bank under present conditions in India ?—If the facilities which we have gone through can be granted by the present banking organizations, the Millowners' Association do not favour the formation of an industrial bank.

7406. I suppose that is what is referred to when you say 'If as a beginning banks in India embarked on a more enterprising policy of recommending industrial investments to their customers, it would create, etc." That is the whole point ?—Yes.

7407. *Sir Purshotamdas Thakurdas :* If that is not feasible ?—Then we suggest that an industrial bank would meet the needs of the hour and would help certain industries in the Presidency.

7408. Including the cotton mill industry ?—Yes.

7409. *Chairman :* That being the position, you would prefer not to answer the next question " Have you any suggestions to offer as to the manner in which the capital required for such a bank should be raised ? "—Yes.

7410. The same remarks would apply to this question " Do you contemplate any regulations in regard to the advances which such a bank will make to industrial concerns in order to safeguard the interests of the bank ?"—Yes.

7411. You have quoted with approval the opinion of the Indian Industrial Commission that the establishment of industrial banks working on approved lines was of sufficient national importance to justify Government a sistance. What in your opinion should be the form which State aid to such an institution should take ?—In the first place, the State will have to furnish the bank with a certain amount of free and cheap money ; they would have to supply and maintain in that bank experts who could examine industrial questions, and generally see that it was continued on sound and economic lines.

7412. When you say that Government should supply the bank with free and cheap money, the two things are not identical. Do you mean that Government should make a loan to the bank free of interest or on a concessional rate of interest ?—I should say both. They should have a certain amount of money free and a certain amount at concessional rates.

7413. In view of the assistance rendered by the State what powers of control should vest in Government ?—Government would have a majority in the shape of Government nominees on the Board of Directors.

7414. You state in conclusion that the most important lesson to be drawn from the aspects of German banking to which you have referred is the value of an active industrial policy, conceived on broad lines, and backed by the co-operation of banks. Will you kindly indicate briefly the policy you have in view ?—My view is that if you had a State industrial bank, you would want proper co-operation between that bank and the new industries, *e.g.*, new companies about to be formed to undertake new work. By co-operation I mean that Government experts ought to be called in, they ought to vet the scheme, consult with the promoters of the company and put the preliminary finance on a reasonable basis ; likewise in regard to the floating of capital. With proper co-operation with a State bank of that description, debentures could be put on the market and these experts would form part of the executive of the State bank.

7415. You really want a State bank ?—Say, an industrial bank. I do not think there is a great deal of difference if Government is going to supply a certain amount of free and concessional money, they would have control over the bank.

7416. You are probably aware that the arrangement adopted in Germany is quite different. There is no question of the State providing those banks with either cheap capital or free capital ?—The trouble here at the present moment is that if an industrial bank were to go to the public and raise capital, I do not see how it could be put on a proper basis. It would have to arrange its finances and business in such a way as to show a just return to the shareholders and I fail to see how it can help a new industry if it has got to pay 6 per cent. for its money. If it has to help an industry with high-priced money, the object is immediately defeated.

7417. *Chairman:* A gentleman with considerable experience of continental banking has observed that it can safely be stated that the managing agency system of certain industries must be accepted as the basis of any further development of industrial finance in India, and that in case a big firm acting as a managing agent of several industries would have a department for commercial banking, then no difference between such an institution and a big continental bank of the mixed type could be discovered. Could you kindly give us your views on this observation ?—I am not quite sure of the German system of banking.

7418. Your Association have referred to the lessons to be drawn from the German system of banking and that is why I put the question to you. This is a lesson which a gentleman with considerable experience of continental banking has been trying to teach me. If you do not possess much personal knowledge in this matter, I shall not pursue the same ?—I have no personal knowledge in regard to this.

7419. *Dr. Hyder:* In your memorandum you say " What is not generally realised is that German banks have of recent years been developing very much on the lines of the English deposit banks without ceasing however to play a leading part in industrial organisation and issue business ". This is an interesting statement and I would request you to amplify the same a little for the benefit of the Committee ?—In answer to that question, I would like to commend the three articles in the " Economist " dated 1st, 15th and 29th March 1930, at pages 449, 572 and 695 respectively, on " Banks and Industry in Germany and England ". I have also got another literature which deals with industrial banks in Japan.

Chairman: We know something of the position of industrial banks in Japan.

7420. *Dr. Hyder:* You are not in favour of Trust Companies and Industrial Corporations. Is it your idea that the industrial banks that might be started should be enterprising and approximating to the position of these continental banks ?—Yes.

7421. Could you amplify why these Trust and Investment Companies have not got the same interest and welfare for their customers as the banks of the types which you have in mind ?—With the Investment Companies the trouble is that they concentrate their attention to a small field and do their investment business within that small circle. They do not cover the whole broad field of banking. In other words they only deal in a small circle of selected companies which are specially taken out.

7422. As I understood, the complaint in England was that these investment companies put their money abroad and moreover, as you say, they were restricted in their dealings. Do you think that we can make a beginning as regards these types of banks by adding some departments to the existing banks in India ?—Our experience is that banks in India have attempted such business without increasing their general business in any way.

7423. Do you think the Imperial Bank should undertake work of this kind ? —I cannot say.

7424. You said the existing banks are doing this business. Could you tell us what classes of banks are doing the work ?—The Bombay banks are doing so.

7425. With regard to the warehousing system, is it your view that these warehouses would purchase the goods outright or they would issue receipts

or goods stored in them on the strength of which money could be obtained?—The practice of many Bombay mills is to sell the goods forward unless other circumstances are at work like trade and general depression, etc.

7426. *Mr. Rushforth:* You are aware that the Imperial Bank under its constitution is prohibited from making advances for more than six months. Would you be in favour of the removal of that restriction or do you consider that as a necessary safeguard ?—As a mill-owner or mill agent, I would have that ban removed. The fact is that in the case of an advance from the Imperial Bank, there is the difficulty that it will have to be renewed if necessary every six months or oftener, but in the case of other banks advances can be had for a year or sometimes for even longer periods.

7427. You were referring to the caution exercised by banks in the matter of advances on hypothecation-*cum*-guarantee basis. Do you know of any instances where hypothecation alone has procured advances from banks without the additional guarantee of managing agents ?—I think there are a few cases where first class mills get loans without the agents' guarantee.

7428. Therefore your view is that the double security is not a universal practice ?—I am only speaking of isolated cases like that. It is of course not a general practice.

7429. *Sir Hugh Cocke:* With regard to industrial banks you said that you would consider that Government should subscribe a certain amount of capital free of interest or at low rates of interest and you were also of the opinion that unless there was a substantial Government guarantee, the public would not come forward to take up shares of the bank ?—I do not think I conveyed that idea.

Chairman: What Sir Joseph said was that a large proportion of the capital will have to be given by Government at concessional rates of interest.

7430. *Sir Hugh Cocke:* Supposing this Committee were against the proposal of Government putting its money in industrial banks, what sort of guarantee by Government do you think would be necessary to attract capital from the public and to ensure public confidence ?—An industrial bank should be started only in times of prosperity and not under depressive trade conditions, when capital will not be forthcoming. I ask when the bank has to take a loan at 6 per cent. from Government how that institution would be able to lend out long-term loans at 7 or 8 per cent.?

7431. So then, your point is that even if Government guarantee 6 per cent. on debentures of the industrial bank which the public are willing to take up that money will have to be lent at 7 or 8 per cent. for long-term which will not be a working proposition ?—Yes.

7432. Then on the question of industries, you mentioned the sugar industry. I take it you consider that the industrial bank should be a close preserve for new industries ?—No, it should finance all industries irrespective of old and new concerns. As a matter of fact these banks would be very useful in financing new mergers.

7433. Could you think of any new industry which could profitably be started in western India now with the help of an industrial bank ?—If protection is given to the sugar industry, then that industry could be extended.

7434. You have not thought of any other industry?—None at the present moment.

7435. *Seth Haji Abdoola Haroon:* You say " Generally banks have withheld from advancing money on block even though it might have been unencumbered

This is a handicap which seriously hampers the growth of trade, and places a check on the possible realisation of profits from cheap buying of raw materials in a falling market". Is it the opinion of your Association that the bank should advance money on the block capital of a concern ?—That rather leads up to the matter of debentures. What is common to Bombay with regard to the mill industry is very much the same in Ahmedabad, *i.e.*, mills have been formed with small capital to finance their block requirements. Then they relied on the public and to a lesser degree on banks for their funds to meet their working expenses. The trouble today in Bombay is that it is difficult to raise debenture loans and there is a case, I think, where banks might help the industry by popularising these debenture issues. Coming back to finding money on block, I do not know whether it is usual for banks to finance block, pure and simple.

7436. You referred to the sugar industry. Is it your view that the industrial bank should finance the requirements of the sugar industry in regard to its block capital ?—My idea is that every company or firm should find its own capital and the bank might help in subscribing to its debentures.

7437. *Mr. Devadhar:* You say "it is natural that though they may be willing and ready to help industries, the comparatively graver hazard of industrial, as opposed to commercial, banking has acted as a brake on their ability to aid industrial undertakings". Do you mean to suggest that it is hazardous for banks to invest in some form of industries ? How will you reconcile the idea which you have suggested in regard to the formation of a state-aided industrial bank ?—I have not been able to understand your point.

7438. *Chairman:* The point of Mr. Devadhar seems to be this. Will not the same consideration as referred to in your memorandum apply in the case of the state-aided industrial bank ?—I think it will in a small degree apply to that as well, as I have pointed out. An industrial bank even if it is state-aided could never function, unless it was floated in a period of prosperity.

7439. Admitting that such an industrial bank was floated in a period of prosperity as a state-aided bank, Mr. Devadhar's point is would such a bank be justified in taking the graver hazards of industrial banking to which you refer ?—A bank will have to do that because it is its function.

7440. Therefore your point is that because it is a state-aided bank it will enter into these hazardous undertakings, because money if lost would not be the money of the shareholders or debentureholders, but the general taxpayer's money which the Government have invested in the bank ?—Not necessarily so. I take it in the case of industrial banks, when they are formed, they would be worked on scientific lines and they would also decide what proportion of their funds should be locked up in industrial enterprises and what proportion should be put in the ordinary banking work ; whereas the existing banks are prepared only to utilise a certain proportion of their funds in industrial undertakings after meeting their general and commercial banking requirements.

7441. So your point is that the State Industrial Bank will be able to utilise more of its resources towards long-term loans than ordinary commercial banks ?—Yes.

7442. *Mr. Devadhar:* Granting that such Governmental assistance is necessary and also useful in the initial stages with a view to foster the industries in general, you are of opinion that such sacrifice as the Government may have to make in so doing is necessary ?—I would not call it a sacrifice, because every proposal of a loan would be gone into by experts appointed by Government.

7443. **But still** you will call such undertakings as hazardous ?—I would not go to that length.

7444. *Chairman :* As Sir Joseph Kay explained the difference between ordinary commercial banking and the industrial banks, the wording used by the Association may perhaps be a little unfortunate ?—That is so.

7445. *Mr. Devadhar :* I quite recognise that such help from the State is necessary and the only justification is that it serves a large section of the community. Do you not think that similar demands made on the State for the welfare of other large sections of the community may be justified as under the same grounds ?—I do not quite follow.

7446. *Chairman :* Mr. Devadhar's point is simply this, and I am perfectly sure that he is fully justified in putting that question, that just as you advocate State aid to industries, would you not also advocate similar help to the Co-operative Movement which is largely a movement which aims at improving the rural finance and the agricultural industry which deals with a larger section of the community than the industrialists. That is the real point of Mr. Devadhar which he does not wish to put to you in a straight form.

Mr. Devadhar : That is no doubt my point.

Witness : I am afraid I cannot reply to that question.

7447. Is it probably because you have not given much thought to that side of the problem ?—That is so.

7448. *Chairman :* Mr. Devadhar's point is that you have talked of State-aid to industries. What about State aid to the Co-operative Movement which seeks to help a larger section of the community, *i.e.*, the agriculturist ? The question is perfectly justified in view of the fact that Mr. Devadhar has got before him a business man of your capacity ?—I am afraid I can give no reply.

7449. *Chairman :* You were advocating State-aid for the interest of the community with regard to sugar industry, etc. That, I take it, is the only reason which justifies you in advocating State-aid. Mr. Devadhar's point is that ; if you are faced with the proposition that if there is the agricultural industry in whose case the State-aid will benefit a larger section of the community, what will be your views with regard to the grant of that assistance ? —That comes under an entirely different category. State-aid to agricultural finance is a very different matter from State-aid to the industrial banks. After all the State can aid agriculture in a good many ways. For instance, the Imperial Agricultural Research Council are spending a lot of money on agricultural research which must benefit the agriculturist. The tax-payers' money is being spent for the improvement of agriculture. I do not know that the bank could function in helping the agriculturist in growing his crops. The bank could help him only after his crop is ready for the market.

7450. *Chairman :* Mr. Devadhar's point is that there are these co-operative societies and banks which are helping the agriculturist in regard to the finance for his crop and Mr. Devadhar, though perhaps by devious paths, was driving to the real goal ; would you not also advocate State-aid to agricultural co-operative banks and allied institutions ?—It is a question of assistance to rural finance through co-operative banks and the allied co-operative societies.

7451. *Mr. Devadhar :* I am also, like Sir Joseph Kay, a member of the Imperial Agricultural Research Council and I also know the amount of money that is being made available by the Government of India, which is merely 25 lakhs. Do you still think that with that help all the needs of the agriculturist are really likely to be met ?

Chairman : But we are concerned with rural finance only.

Mr. Devadhar : I am talking about banks. (Witness) I do not feel competent without having some time to give my views on this rural finance.

7452. *Mr. Sarkar :* You state " so long as the industry continued to prosper, no difficulty was experienced in raising all the working capital required, but as soon as trade depression set in and the mills were faced with rising stocks and diminishing sales, public confidence which had proved so reliable an asset was lost, and a gradual withdrawal of deposits came to be made ". For this reason do you not agree that this kind of public deposits does not constitute a dependable source of finance ?—They have been dependable in the case of the mill industry for the last 30 years. The working capital has been found by the fixed depositors and there is still to-day considerable faith in the Bombay mill industry.

7453. If the depression sets in, deposits are gradually withdrawn and the mill is put to embarrassment on account of those untimely withdrawals. I want to differentiate between public deposit from individuals and finance from banks ?—The bank is very human too. The bank is also like the individual depositor. The moment an industry begins to wane the bank also hesitates in common with ordinary depositors to lend more money.

7454. *Mr. Khaitan :* You have said in one of your answers that some banks in Bombay have opened trustee departments. Could you give us more detailed information ?—I can send you some information about that.

7455. We have heard it from one witness that one of the functions of this kind of trustee bank is that it enables the bank to act as an administrator or executor or as a manager to look after the affairs of minors ?—That is the trustee department we are talking of.

7456. Has there been any case of a bank in Bombay opening a department such as can be called an investment trustee department ?—Not that I know of.

7457. When you recommended that State-aid might be given to start an industrial bank, I suppose you had in mind the difference in the conditions of India and the conditions prevailing in more advanced countries like Germany and England. Is that not so ?—No ; it is not. I had in mind only just the conditions in India.

7458. It was because you were only thinking of conditions in India that you recommended that some kind of State-aid would be useful in starting an industrial bank ?—I had nothing else at the back of my mind.

TWENTY-FIFTH DAY.

Wednesday, the 24th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Mr. R. W. BUCKLEY.
Mr. F. V. RUSHFORTH.	Mr. JADU NATH ROY.
Mr. MANU SUBEDAR.	Mr. G. K. DEVADHAR, C.I.E.
Dr. L. K. HYDER.	Mr. NALINI RANJAN SARKAR.
Mr. W. LAMOND.	Seth HAJI ABDOOLA HAROON.
Lala HARKISHEN LAL.	

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Mr. K. N. Chandabhoy (Vice-President), Mr. R. N. Adarbad, (Hon. Secretary), Mr. N. S. Gubbi, (Member); representatives of the Indian Society of Accountants and Auditors were examined.

7459. *Chairman*: I believe Sir Hugh Cocke is the president of your society?—Yes, Sir.

7460. Will you kindly give us some information about the objects of your Society and its constitution?—The objects of our Society are given in our bye-laws. They are about 15. I will only state the most important among them. (*a*) To provide in India a central organisation of accountants and auditors and to do all such things as from time to time may be necessary to support and protect the character, status and interests of the profession of Public Accountants and Auditors in India. (*b*) To promote and protect the interests of its members, and of the profession of Public Accountants and Auditors in India generally, to cultivate the honourable practice and professional co-operation among its members, to promote their efficiency and usefulness by requiring the observance of strict rules of conduct as a condition of membership of the Society, and by setting up a high standard of professional and general education and knowledge of persons engaged in, or about to be engaged in, the profession of Public Accountants and Auditors and otherwise, and to elevate the profession of Public Accountants and Auditors as a whole. (*c*) To represent generally the views and interests of the profession, and to preserve and maintain its integrity and promote just and honourable practice in the conduct of business and to suppress malpractice. (*f*) To afford the Central and Provincial Legislatures and public bodies and others facilities for conferring with and ascertaining the views of the Accountancy Profession as regards matters directly or indirectly affecting it. These are the four principal objects out of about 15. If you desire me to read out the others, I will do so.

7461. Will you kindly let me have a copy of your bye-laws? (A copy was handed over to the Chairman).

7462. How long has the Society been in existence?—It was originally started in 1916 and it was resuscitated about 3 years back.

7463. Was it in a moribund condition for sometime?—It was in a moribund condition for a good many years and then it was revived.

7464. Could you kindly tell us the number of your representatives?—We have 145 members out of about 500 persons eligible for membership throughout the whole of India.

7465. Your members are distributed all over India?—Yes, all over India.

7466. *Sir Purshotamdas Thakurdas*: When you say out of 500 all over India, you lay down certain qualifications?—There are certain qualifications and members holding those qualifications are as many as 500.

7467. Can you tell us how many of your 145 members belong to important towns?—All Presidencies, Provinces and Administrations are represented on the association. There is not a single Presidency which is not represented. We have members from all Presidencies and Provinces on our rolls.

7468. *Mr. Manu Subedar*: A Bombay auditor can go to Calcutta and practise there as an Auditor?—Yes.

7469. That me ns that the work of the association is spread out not according to where the auditor works but according to his practice?—Yes, that is so.

7470. *Chairman*: You state that your Council agree that the primary function of any banking legislation in India should be to inspire confidence "where it is lacking at present in the minds of the public and specially in the minds of small investors, so that they may deposit freely in indigenous banking institutions". Am I correct in understanding that your Council believes that the investing public do not freely deposit their savings in indigenous banking institutions for want of confidence in them generally? If so, will you give us the reasons for such lack of confidence?—Our reasons are that the public and small investors have lost faith in the indigenous banking institutions since 1913, very probably from the time joint stock banking was in its commencement, and during the decade that followed many joint stock banking companies failed for one reason or another and that resulted in a loss of some crores of rupees. Naturally the investing public lost faith in such concerns and I can say that their faith has not yet been sufficiently restored.

7471. *Mr. Manu Subedar*: With the result that the deposits have gone down?—The paid-up capital has gone down.

7472. When you say that the depositors have no faith I suppose you would qualify that statement and say "less faith"?—Yes.

7473. They have got about 60 crores; so you could not say that the depositors have lost faith and if you take into consideration the Imperial Bank which is also an Indian joint stock bank, you could not say that the depositors as a class have lost faith?—That is true.

7474. But the position in your opinion would have been stronger if there had not been those failures?—Yes. As regards the Imperial Bank, people have faith in it because it is supported by Government.

7475. If the Imperial Bank ceased to be Government bankers and remained merely as a commercial joint stock bank, do you apprehend that their deposits would go down?—It would then be on a par with indigenous banks.

7476. Would the deposits go down?—I believe so.

7477. *Chairman*: It follows that owing to this lack of confidence the depositors have not put the whole of their savings in these indigenous banking institutions. Have you any idea where this money has gone? Has it gone to hoards?—I have no statistics at my command, but I believe these deposits have gone to foreign banks.

7478. If you were told that the proportion of deposits in foreign banks since 1913 has gone down while the proportion of deposits in the Indian joint stock banks has gone up perceptibly, would not that be an indication against the suggestion you have made?—In that case, of course, if the statistics show otherwise, I am open to conviction.

7479. *Sir Purshotamdas Thakurdas*: Your only reason for this lack of confidence is the failure of certain banks. Do you say that that feeling has continued since then?—The feeling in favour of banks is gradually reviving, but there are some kinds of misgivings still in the minds of the people.

7480. Do you mean to say that the want of confidence is only due to bank failures in 1913 and to nothing else?

7481. *Chairman*: I take it that by indigenous banking institutions you have been referring to indigenous joint stock banks?—That is so.

7482. *Sir Purshotamdas Thakurdas*: During the boom period in 1918, 1920 and 1921, the deposits in the Indian banks were on the low side?—They were not on the low side. The boom period had as a matter of fact changed the mentality of the people all round.

7483. Therefore, the shock which the people got in 1913 was discounted by the boom period? When people have money, they would go to the Indian joint stock banks to deposit that money; but when they have no money, how can they be expected to go there?—I want to qualify my statement by saying—lack of confidence coupled with the poverty of the people. When the people become poor, they naturally get more cautious.

7484. *Mr. Manu Subedar*: We have heard complaints from several joint stock banks that Government's borrowing policy which yielded to the investor a rate not much less than the rate which he could earn by depositing the money with banks was responsible for the diversion of considerable sums which would otherwise have gone into banks. Would you support that statement?—Yes, to a certain extent.

7485. If Government's programme of borrowing had not been so heavy deposits in Indian joint stock banks would have been greater?—Certainly.

7486. So, to that extent you would say that the lack of confidence on account of bank failures is not the only reason?—No.

7487. The Karachi Bank failed recently. Do you think it has affected the deposits with the Bank of India or with the Central Bank?—They are flourishing institutions and people have faith in these banks.

7488. Therefore, what you mean is that if there is a new or an obscure bank started by an individual and if there was a breath of scandal about it, then of course the people would not go to deposit money?—We have

only 4 or 5 good institutions in which people have confidence. The bulk of deposits go into these banks. But taking into consideration the vast extent of India, if you have only 5 or 6 such banks it goes without saying that people have no faith in the other new institutions that are started.

7489. A new institution was started in the Punjab some years ago. It has got a very large total of deposits which would command our respect? —It must have a very powerful Board of Directors. The question of personalities is always a very important factor.

7490. *Dr. Hyder*: I take it that your statement refers to the small investor. Have you noticed any change in the mentality of this small investor or is he still as shy as before?—There is some change of late, though not very perceptible.

7491. When he does not invest, it does not show that he has got nothing to invest?—If at all he has any money to invest, he tries to fish out the safest concerns.

7492. What do you mean by the safest concerns?—I need not name them as the distinction will be invidious. I can mention Government investment for example.

7493. *Chairman*: Your view is that large sums of money have gone into Government investment because of this lack of confidence in the indigenous banking institutions? Is that your point?—That is so.

7494. Are you now referring to treasury bills or other forms of Government securities?—We mean postal certificates and the Government savings banks, etc.

7495. *Sir Purshotamdas Thakurdas*: I take it that this memorandum has been seen and approved by your Council and that on the Council there are several auditors who are auditors of banks also?—Yes. As a matter of fact this memorandum which has been put before the Committee has been thrashed out in the Council, and we have included in it only those points on which we were unanimous or almost unanimous. Therefore the memorandum submitted to your Committee has been passed paragraph by paragraph almost unanimously.

7496: *Chairman*: Your Council suggests that any private individual, firm, or limited company intending to do banking business in India should not be allowed to be registered as a bank. Even if such private concerns satisfy the legal requirements for registration and carry out the obligations imposed by law on banks, would you oppose their recognition as banks?—With regard to this question, Sir, as it is there is at present no law imposing legal requirements for registration of individuals or firms conducting banking business. If the legislature contemplates any enactment on that matter, we should like to know of any necessary provisions. Before that we are not in a position to answer this question.

7497. My question is that if you have an institution which satisfies the legal requirements for registration which are at the present moment required in the case of public limited companies, would you object to their being registered as banks?—Certainly not.

7498. Then, they would be in the category of public limited companies, but they may satisfy other requirements which are there to safeguard the interest of depositors?—We should know what those particular requirements are from which they are to be exempted.

7499. Obviously they will not be asked to form themselves into a public limited company because if a private individual or a private limited company has to convert itself into a public limited company under the Indian Companies' Act, then naturally it will not continue to remain as an individual or private limited company so that the fundamental distinction must be there; but barring that if it is provided that these institutions must follow the other regulations which are applicable in the case of public limited companies, would you object to their being registered in India as banks?—Yes, we would object.

7500. You do not want any institutions to be registered unless and until it forms itself into a public limited company?—That is so.

7501. *Mr. Khaitan*: What is your real objection to a private limited company registering itself in India?—Our reasons are that private limited companies are not so well controlled under legislation as public limited companies; they enjoy some sort of privileges.

7502. *Mr. Manu Subedar*: Under the Companies Act they need not register their balance sheet with the Registrar at all, and the Companies Act is not so strict with them as with a public company?—Yes.

7503. But is that the only objection, is there any financial objection?—If they have to comply with the same provisions as public limited companies, we would have no objection.

7504. *Chairman*: That was my precise point. Short of meeting that particular requirement of the Indian Companies Act under which they may have to form themselves into a public limited company, if they are required to follow the other regulations now applied to public limited companies, would you object to a private limited company registering itself in India as a bank?—No, we would not.

7505. *Sir Purshotamdas Thakurdas*: Your objection only applies to banks, not to bankers?—Yes.

7506. Your main aim is to protect the interests of the depositor. You know that *shroffs*, *chetties* and *multani* bankers all take deposits and they are at present outside the reach of the law. Do you propose that there should be prohibition against anybody, taking deposits who is not registered as a bank?—The prohibition is against the use of the word 'bank'.

7507. You would like to see what the legislation is like before you criticise and you are not prepared to say whether you have any objection or not before you see the main outlines of the proposed legislation?—Yes.

7508. *Chairman*: To that extent, would you modify what you have said in the statement "Likewise, an individual or a private partnership should be prohibited from using the words 'banker', 'private banker' or 'bank' in the name of his or the firm's business"?—In the absence of the nature of the proposed legislation we are not in a position to say whether we agree or do not agree. The reason for including the words 'individual or private partnership' is that we have taken into consideration the present circumstances. What the future circumstances would be we were not in a position to say when we drafted the memorandum. As far as present circumstances are concerned, we wish that an individual or a private partnership should not be allowed to use those words.

7509. If that was your real intention initially, if you had said that until certain things were done, this should not be allowed, that would have

made the position clear. But that is not how the sentence runs. To that extent the statement should be modified, *i.e.*, if certain things are done and if those receive your approval, you would not mind an individual or a private partnership being allowed to use the word 'banker' or 'private banker'?—Quite so.

7510. To that extent only you modify your statement?—Yes.

7511. *Sir Purshotamdas Thakurdas*: Your main point is to see that the accounts of such banks or bankers are open to the utmost scrutiny by a responsible auditor?—Yes, and they should be published.

7512. The publication part is a matter for the investor. As far as you are concerned, you think the account should be open to audit by a responsible party?—Yes.

7513. *Chairman*: Do you press for publication?—Compliance with the requirement of the Companies Act necessitates publication.

7514. Are you strong on publication?—Yes.

7515. *Seth Haji Abdoola Haroon*: Would you agree that these private banks or bankers should be allowed to do business other than banking business?—As it is, the present *multanis* and other classes of the same group do also trading business. That depends upon prospective legislation and we are not in a position to say anything off-hand.

7516. *Chairman*: What would your advice be in regard to legislation? —If you want my personal views, I am prepared to give it. My Council has not considered that aspect of the question.

7517. *Seth Haji Abdoola Haroon*: Would you allow the indigenous banking companies to do other business? Have you any objection?— They cannot do other business, it is laid down in the memorandum.

7518. *Mr. Manu Subedar*: The memorandum in some cases, even in the case of banks, is extremely wide and gives them various powers which would include trading of a certain kind. I know that your views are very strict on the subject even as far immoveable property goes, but I take it that you would advocate that if the memorandum of any bank provides for such wide powers as to enable them to do trading of any kind, they should not be allowed to do so?—Yes. The memorandum should be restricted.

7519. The Registrar of joint stock companies should object to that?— Yes.

7520. *Chairman*: Your Council is of opinion that there should be adequate control over all British and foreign banks doing business in India and that such control should be exercised by a special Finance Committee empowered to issue licenses to such banks. Will you kindly tell us who should appoint the committee and what its constitution should be?—We suggest legislation for the formation of a Finance Committee. It should consist of representatives of Government, elected representatives of legislatures and elected representatives of public bodies interested in commercial affairs. We also suggest legislation for a scheme of control over all British and foreign banks embracing all matters connected with the imposition of legal obligation on such banks, and also that such a committee may be empowered, if the requirements are satisfied, to issue licenses to such banks.

7521. If and when a Reserve bank is established, would you allow the Reserve Bank to take the place of your special Finance Committee?—That depends upon the organisation of the Reserve Bank, whether its constitution would admit of representatives of so many bodies. When the Reserve Bank Bill was before the Assembly, there was some opposition from the officials regarding the constitution of the Reserve Bank Board and the Government of India opposed having representatives of Indian legislatures on the Central Board. We have suggested that there should be representatives of the legislature on the Finance Committee and if the Reserve Bank is started as originally proposed by the Government of India, it means that the representatives of the legislature would not be on it.

7522. Therefore you will continue this special Finance Committee?—Yes.

7523. *Mr. Khaitan*: You referred to something about the legal obligations of the British and foreign banks?—The legal obligations may be with regard to immediate capital, with regard to annual production of statements of account connected with the Indian business according to the prescribed form, registration of the same, practical training of qualified Indians in banking business and methods, the interests of creditors and investors in the event of winding up, investments in Indian securities and so on.

7524. *Chairman*: You have detailed some of these in your memorandum?—Yes.

7525. Can we take it that these are the most important ones which you have now mentioned?—Yes, on which we are unanimous.

7526. There may be other items on which there may not have been unanimity?—We have only touched upon those points in our memorandum in which accountants and auditors are concerned.

7527. Your Council is further of opinion that in the case of the winding up of any British or foreign bank doing business in India creditors and shareholders should have a priority, or a first charge, over the bank's assets in India without prejudice to their rights over the assets of the bank situated outside India. Can you cite any precedent for such provisions in respect of non-national banks working in other countries?—We do not know much about non-national banks. As far as our information goes, I think there is some such law in Germany under which the German nationals are protected. For example, if an Indian company goes into liquidation and if that Indian company has got some German debtors and some German creditors and if the assets of the Indian company are not sufficient to pay off the creditors of that company, even then the law in Germany, as far as I understand it, is that from the assets available of German debtors the German creditors are paid off.

7528. And thereafter from the funds of the Indian creditors?—Yes.

7529. *Mr. Manu Subedar*: What you have said applies to all companies and not merely to banks?—It applies to all companies. The Indian Companies Act applies to banks also.

7530. We are trying in this Committee to devise measures which would be of special application to banks. We are not concerned with the position of other joint stock companies or with the position of foreign companies working in this country or their branches. It may be a very satisfactory thing in law, but do you know that in the case of an ordinary

company it is not possible to fritter away the assets or to reduce the assets and increase the liabilities suddenly. In the case of a bank you are aware that in the course of two hours by means of the telephone and by a couple of telegrams you can reduce your assets by a couple of crores and increase your liabilities by a couple of crores in this country, the assets being increased in other countries by means of remittances. Do you think that this in itself is an adequate provision?—We would leave it to the Committee to consider.

7531. You feel that in the case of a bank this provision by itself may not be adequate?—If from your expert knowledge of the inner working of banks you think it is not adequate, we have nothing to say. We have made this recommendation from our experience of the working of the company law.

7532. You say in your memorandum that only public limited companies which are established in India to carry on banking business should be allowed to use the word "bank". You also say that "in the best interests of the investing public in this country it is very desirable that there should be adequate control over all British and foreign banks doing business in India, and that that control could be effectively exercised by a special Financial Committee empowered to issue licenses to banks desiring to start or to continue doing business in this country". Is it your intention that unless a bank is registered in this country, it should not be allowed to use the word 'bank'?—The first sentence refers to Indian indigenous banks registered in this country, but as regards foreign banks, if they comply with all the requirements of law as Indian banks have also to, there cannot be any objection to them.

7533. But a company registered in London cannot possibly comply to the same extent as a company registered in India in the sense that it will have no directorate here and no audit of any kind?—But we want that it should have these.

7534. In the first instance I should like to be clear with regard to your views on the larger question. Suggestions have been made to us that unless a company was registered in India, it should not be allowed to work as a bank following the precedent of other countries, and I should like to know if your committee have any views on this extreme suggestion?—We do not wish to go to that extreme. All I would say is that foreign banks working in India should be compelled by law to get their accounts audited and published and they should carry out the same obligations as Indian banks are compelled to do under the Indian Companies Act.

7535. *Chairman*: That is, your paragraph 3 refers to banks established in India, and your contemplated regulations in regard to foreign banks are contained in paragraph 4 and not in paragraph 3. Would that be a correct appreciation of the views of your Association?—Quite so.

7536. *Mr. Manu Subedar*: With regard to foreign banks working in this country, you would not want any discrimination between them? Whether a bank is from America, Japan, England or Germany, they all stand on the same footing?—Yes, provided they comply with the Indian law.

7537. You are suggesting certain definite provisions, but others may be thought out by this Committee. When a bank is willing to comply with these and, as a matter of fact, is complying with them, licenses should be issued and continued?—Yes.

7538. With regard to publication of accounts, is it always possible in the case of a bank to separate its Indian business from its foreign business?—It could be made possible.

7539. It could not be shown as profit and loss account or balance sheet?—It could be shown under the schedule of assets and liabilities.

7540. But such a statement could give no idea with regard to cash and reserves because they are naturally composite items?—A special note could be made in the balance sheet that the reserves are both for India as well as for other branches.

7541. I want to put it to you whether it is possible?—Our idea is to make it possible.

7542. We are thinking of the methods of devising adequate control. I suggest to you that the method put by you may not secure a correct view of the position of the bank as a whole?—But it will secure better information than is available at present.

7543. Can we improve it further?—It can be improved further.

7544. I put it to you that it is difficult to prepare the balance sheet of a concern which is borrowing in 20 or 30 different places and which is registered under foreign law and whose forms are separate?—Our view is that it should be made possible to secure better information and more detailed statistics for Indian shareholders about the position of the banks working in India.

7545. *Chairman*: I take it that it is really to meet that aspect of the case that you add these words "without prejudice to their rights over the assets of the banks situated outside India".—Yes.

7546. You refer to the practice in Germany. Could you kindly refer us to any books or publications which would enable us to find out the practice in Germany in this particular matter?—A case recently came before us about the liquidation of a company and from that we came to know of it.

7547. In those papers is any reference made to the German law? If you could refer us to the particular German law, we might be able to get hold of the papers. If you have not got the information before you now, would you kindly write to our Secretary?—Yes, we shall do so.

7548. *Mr. Manu Subedar*: It has been put to us by several witnesses that the first claim, to the savings made by the people of this country, is of the Indian banker and through the Indian banker, of Indian trade and industry, and that for this purpose a regulation should be made, by which the freedom of foreign banks to receive deposits in this country should be either curtailed or should be restricted altogether. There are various views on the question, but would you kindly tell us what the views of your Association are on it?—We have not thought, as an Association, over this matter, but we would certainly want that certain restrictions should be put upon the investments of the deposits of Indians, that is, that those deposits should be utilised as far as possible for Indian purposes.

7549. There are two classes of restrictions. The first is the restriction on the depositor himself from putting his money in the exchange bank. If he is prevented from doing so, the suggestion is that he will either put it in Government securities or in various other forms of securities that might be created, which will spread out to the benefit of internal trade,

industry and commerce. The second restriction which you mentioned is more difficult. How would you restrict foreign banks from using Indian money, say for their operations in Singapore, Hongkong, Java or the Malay Peninsula?—They might invest it in Indian securities to some extent. They might use it for the advancement of Indian trade to some extent.

7550. But if the company is a single composite company controlled by a single Board and the idea is that they want to make as much out of their working capital as possible and invest them wherever it pays them best? You know as a matter of fact that the money rate is better as you go eastwards up to Hongkong and it is not improbable that some of this money is going to the detriment of the use which it could be put to here. The idea of restricting deposits to Indian banks was that the money should be presumably used in India. If foreign banks want to do their operations here, they can bring deposits from their own countries where they can get it cheap and plentifully and not entrench on Indian savings to which the first claim is of the Indian institutions. What would be your view?—We have no definite views on the matter, but as far as possible some feasible measures should be taken to prevent exploitation.

7551. Supposing industrial banks were started in this country and debentures issued on which there is a Government guarantee, would you consider that a satisfactory form of investment?—Yes.

7552. *Chairman*: You have said that your Association contemplates that one of the conditions for the issue of licenses should be that deposits in foreign banks should be invested as far as possible in Indian securities and in Indian trade. I do not find that condition mentioned in your memorandum at all?—I have already said that we have only put forward those suggestions which directly affect the accountants and auditors. Our society is a professional body and we have restricted as far as possible to those points which frequently present themselves to auditors.

7553. You must remember that the view of your Association is that investments should be restricted as far as possible to Indian securities and to Indian trade. Previously you said that your Association is only concerned with those matters on which they have expressed their opinion. I want to make sure that what you have just said represents the views of your Association?—It does represent the views of our Association.

7554. *Mr. Manu Subedar*: Another proposal has been placed before us and that is the land mortgage banks which may be started in connection with the co-operative movement. The idea is that Government will guarantee the interest on debentures issued by those banks and they would be trustee securities. That being the case, would you not advocate the Indian money being deposited in those debentures?—Certainly, that can be done.

7555. *Dr. Hyder*: You say that in the case of winding up of any British or foreign banking company doing business in India, Indian creditors and shareholders should have a priority, or a first charge over the bank's assets in India without prejudice to their rights over the assets of the bank situated outside India. One can understand your anxiety for the creditor but how are you going to lump the shareholders together?—After all the creditors have been paid off in full, the shareholders' case will be taken up.

7556. *Mr. Lamond*: You insist on local registers, do you not?—Yes.

7557. *Dr. Hyder*: If an Indian elected to be a shareholder in a foreign company, would you under the Indian law give him protection for his interests?—We do not know what laws there are or there will be in foreign countries with regard to the position of their nationals in this matter.

7558. With regard to the German system to which you referred is this a reference to any particular provision in the German Commercial Code?—Well, we will look it up and let you know later on.

7559. *Sir Purshotamdas Thakurdas*: Take the case of a bank which has closed its doors. Supposing on the Bank of Taiwan, there were Indian deposits to the extent of Rs. 20 lakhs and there were some Indians who held shares in that Bank to the value of Rs. 50,000, and the Bank's assets in this country amounted to Rs. 21 lakhs. Is it your suggestion that after meeting the Bank's creditors in this country, out of the balance of Rs. 1 lakh, Rs. 50,000 should be paid in full to meet the dues of the Indian shareholders?—That is not our view. Our point is that after all the creditors have been paid off in full in India, the balance of Rs. 1 lakh that is left will be placed at the disposal of the liquidator of the Bank at Japan who will after meeting all the creditors of the bank (including Indian and foreign) will distribute the remaining balance among the shareholders of the Bank irrespective of the fact whether they are Indian or foreign.

7560. *Mr. Buckley*: We have been told that when a certain Japanese Bank closed their doors many Indian depositors of that concern lost their money. Is that your information?—We do not know much about that.

7561. An impression has been left with this Committee by one witness who was examined before us that the Indian depositors did lose lots of money by that crash. If I tell you that Indian depositors did not lose even a single pie and I can also substantiate my statement by facts and figures for the use of this Committee, will you accept my statement?—We have not based our suggestions on that point. We would however be prepared to admit your statement if you can prove it to be correct.

7562. *Sir Purshotamdas Thakurdas*: If it is so, do you not think that it was only a lucky coincidence?—That is so.

7563. *Chairman*: Will you kindly explain to the Committee the reasons why you want the various classes of debts and the nature of securities against which they are secured stated specifically in the balance sheet?—With a view to give full information to the investors, shareholders, creditors and the general public, it would give a clearer idea of the working of the bank if the debts and securities of the bank are fully classified and given in the balance sheet. It also serves statistical purposes and enables not only professional men but also lay-men to form some opinion on the management and stability of the bank.

7564. And it is your opinion that if such information were given, then it would engender greater confidence in the depositing public?—Yes.

7565. *Sir Purshotamdas Thakurdas*: May I ask whether you have known of any parallel of existing legislation in other countries on this subject?—We do not know of that, but as Indian banking is still in its

infancy, we think such a provision is necessary in order to ensure more confidence in the public.

7566. I suppose your idea is that if a bank keeps its assets in cash even up to 100 per cent., then that bank would be considered solvent?—We would not go to that length, but still we consider that as far as possible the position should be shown clearly.

7567. *Mr. Manu Subedar*: You know what is called window-dressing practised by banks?—We can guard against window-dressing by providing under legislation that auditors should be empowered to publish such instances of window-dressing in a schedule to be attached to the balance sheet. Supposing a director has taken a loan of Rs. 5,000 from the bank, and he repays the loan on the 30th December, on the 31st the balance sheet is prepared and then again on the 1st or the 2nd January he again takes the loan, then the auditor must be authorised to bring in such instances in the schedule appended to the balance sheet.

7568. I can quite understand your point. I am very much on the point of cash. You know window-dressing is not a peculiar Indian weakness, but it is a human weakness prevalent all the world over. You will agree with me that unless there is a system of daily, weekly or monthly audit, an auditor's business is only to report on the state of affairs as on the date the balance sheet is prepared?—That is true. We are under the present law not required to state any other fact.

7569. I put it to you that in the case of banks that have failed, the bank's auditors must have known of some big transactions which happened two or three years before the crash which would have brought about the crash?—I agree, but at present there is no statutory obligation on auditors to disclose such transactions. We have naturally to restrict ourselves to the duties that are placed before us. But we suggest that that difficulty can be circumvented by the introduction of the practice followed in Canada. If the shareholders by a resolution of the general body passed a resolution to that effect, the auditors will have to come out with actual facts.

7570. I am very glad that you mentioned this, but you will agree with me that the present situation is, although the appointment of the auditor rests in the shareholders in name, in actual practice it is the directors who appoint the auditor?—That is so.

7571. So as matters stand at present, you would not go out of your way to hurt the feelings of the directors or the Manager because of overzeal?—We are simply to be guided by the statutory obligations imposed on us and nothing more.

7572. I say the office of the auditor at present depends on the good will of the directors of the bank and if anything could be done to make the position of the auditor independent of the directors, then the position would be better?—That is so.

7573. *Mr. Devadhar*: You have doubtless audited the working of several banks and other companies. What percentage of these firms resort to this form of window-dressing?—We cannot say what percentage it is, but we have not come across any cases of window-dressing.

7574. So then you are only dealing with certain possibilities and probabilities?—If you will read the reports of the liquidators in the case of banks that have failed, like the Alliance Bank of Simla, you will get to know more about this.

7575. From your experience can you say what percentage of the banks do this window-dressing business?—That point can only be thrashed out when a firm goes into liquidation and then the liquidator gets more power and greater facilities to thrash out the whole problem.

7576. *Chairman*: Mr. Devadhar's point seems to be this. Your reference to the liquidator's report brings out the fact that window-dressing does go on. Otherwise these banks, at least some of them, would not have gone into liquidation?—That is so. If you read the liquidator's report that will disclose the actual position.

7577. So you admit that there must have been cases of window-dressing?—Yes, there are cases.

7578. And Mr. Devadhar's point is, whether your Association, with its experience in these matters, will be able to say in what percentage of cases is this window-dressing going on? We are unable to answer that point. We have got only one bank to audit and all others are commercial houses.

7579. *Mr. Devadhar*: May I take it that in your experience you have not come across cases of window-dressing?—No, not in the case of banks.

7580. You referred me to the reports of the liquidators. So then the position is that unless a bank goes into liquidation nothing can be known about that?—That is so.

7581. While a firm is on its legs we cannot get such information and only when it falls down, you will get the information. Is that not your point?—To prevent that we have proposed safeguards.

7582. *Mr. Khaitan*: You have also heard of secret reserve which is very much different from window-dressing?—That is legitimate to strengthen the position of the bank. All sound banks must have secret reserves.

7583. Is there not more of secret reserve than that of window-dressing?—That is so.

7584. *Mr. Lamond*: It has been suggested to you that hidden reserves strengthen the banks while window-dressing weakens it. I put it to you that it is not the case. Window-dressing is done only just to show a bigger percentage of assets in cash. It only reduces the earning power of the bank for the time being?—The object of that window-dressing is to give a better opinion of the bank than what it really is. We should consider it an embellishment.

7585. *Chairman*: But this particular class of window-dressing, that is, transfer from securities to cash or to money at call is not an embellishment?—Comparatively speaking it is so, because cash is better than money at call or other investments. To the investing public it sounds better.

7586. *Mr. Devadhar*: Is this window-dressing an indigenous growth or a foreign importation?—That depends on the history of the banks of which we have no knowledge.

7587. *Chairman*: There is no window-dressing in the matter of indigenous bankers in India because they do not publish their balance sheet?—That is so.

7588. Item 10 of particulars required by Act VII of 1930 on the assets side of your proposed form F., is "Debts considered bad or doubtful". You are no doubt aware that under the notification issued by the Government of India in the year 1927 banks have been exempted from disclosing such debts if they have been provided for to the satisfaction of the auditors. Will you kindly state why you want this item to be separately shown in the balance sheet?—This is a very important item. Debts considered bad or doubtful form a striking feature of the management of the bank and we are therefore for the reversion to the old practice of showing bad and doubtful debts on the assets side and the provision for the reserve on the liabilities side of the balance sheet. Besides for the use of students of banking it is a useful item because we have to know what are the debts, what the investments are and so on. We see no reason why it should not be disclosed.

7589. I dare say you are aware of the change made in 1927?—This order was promulgated by the Government of India without consulting any commercial or professional bodies. I have here a copy of the petition made by the Central Bank, the Bank of India and the Allahabad Bank to the Governor-General in Council in the course of which the memorialists state as follows:—"The practice uniformly followed has been to omit the bad and doubtful debts from the total of loans and advances if and only so far as the same have been adequately and satisfactorily provided for. If any debts which are doubtful have been included in the total of loans and advances and if the banks do not hold sufficient provision for the same they are always separately specified as bad or doubtful". On the basis of this petition the Government communiqué that was issued stated that this is a uniform practice. Now I have got the balance sheets of the Bank of India, one of the petitioners of this memorandum and you will find that from 1913 to 1927 the Bank of India itself has given the bad and doubtful debts and a provision for reserve in their balance sheets. So our point is that the Government of India made unnecessary haste in promulgating this order. They never even consulted all banks; because one bank at Bombay was dragged into litigation, the Government of India naturally went to its rescue. We admire their timely help but our opinion is that bad and doubtful debts should be shown in the balance sheets.

7590. Is it not a practice in other countries not to show bad and doubtful debts and is it not one of the reasons quoted by the Government of India in their communiqué?—We are following the English Companies' Act with some modifications here and there in this country. In the English Companies' Act there is no form "F" or anything of that sort with the result that it has not been obligatory for banks in that country to disclose their bad and doubtful debts. As a matter of fact it was only in 1929 that it was left to the discretion of the banks or limited companies to publish their profit and loss account or not.

7591. I think you said it would be more desirable from the point of view of the public. If the doubtful debts were shown separately in the balance sheet even if they were well provided for, would that not raise

suspicion in the minds of the not-too-well-informed public?—Not necessarily; it will create confidence rather than suspicion.

7592. If they read in the balance sheet debts considered bad or doubtful although there is some corresponding entry, still it may not attract their attention to the same extent? Barring your Association and perhaps a few other people, will any body be able to study these balance sheets carefully?—In the formulation of a principle we have to get at the intelligent side of the public. From their point of view we have to discuss this question.

7593. *Chairman*: If you had dealings only with intelligent people, one should have expected that a similar provision existed either by law or by established practice in countries like England. I think the point was that this provision was required in India because the people in India who deposited money did not possess the same amount of intelligence as in other countries. My suggestion was that an entry like that instead of inspiring confidence would frighten away people and certainly it would make the less intelligent class of depositors suspicious. In regard to the more intelligent classes they would be able to appraise the credit and debit sides of the balance-sheet alright; but would not the same argument apply to any other country like England?—If by legislation all banks are compelled to show doubtful debts on the one side and provision for bad and doubtful debts on the other, the people must see that this is an item which must occur in the ordinary course.

7594. *Mr. Lamond*: Would you have any legislation to prevent bad debts from being wiped off without being shown?—Bad debts must be wiped off.

7595. If they show bad debts in the balance sheet, what is the object of showing it?—The item of bad debt should be shown in the profit and loss statement. It must be disclosed to the public as to what extent the business was good.

7596. *Chairman*: In this statement of yours I do not see any *per contra* entry. I see a note by Sir Hugh Cocke who is the Chairman of your association. He says "doubtful debts which are not covered by provision must be shown in a bank balance-sheet". Apparently this entry shows debts which are not covered by provision. Other debts are apparently not intended to be shown separately. Now I am trying to find out the intention of your proposal. I thought that you wanted to go back to the system which was in force before the year 1927, but I do not find the corresponding *per contra* entry?—Yes, there is.

7597. It is the bad and doubtful debts reserve. I am asking about the *per contra* entry.—There is that provision under "funds".

Mr. Lamond: That may be reserve built up to meet any bad debts in future.

7598. *Chairman*: I am trying to find out what the corresponding entry was in the Companies' Act. We discussed the matter before but failed to understand the position and we therefore asked Sir Hugh Cocke whether he would be able to elucidate the matter. He said that it is not practicable anywhere in banks to divulge the amount of their doubtful debts provided they are fully provided and the reasons are obvious. Then he referred to the change made in 1926 and he said he approved of it. In

fact he said that publicity might be harmful. Having said so, he ended up by saying "it is of course obvious that doubtful debts which are not covered by provision must be shown in bank balance sheet". As he is your chairman, I put it to you whether this entry refers to those cases which are not covered by provision?—All the debts which are covered must be shown on the assets side.

7599. Before 1927 it was purely a *per contra* entry and bad and doubtful debts reserve is something quite different from a *per contra* entry. The two things are not identical. For the present, I want to know what you really intend by entry 10. Do you intend only those debts which are not covered by provision or all bad and doubtful debts?—All bad and doubtful debts.

7600. *Mr. Khaitan*: Let us consider the case of bad and doubtful debts separately. Dealing with the bad debts, you are not opposed to wiping off the bad debts. Is that not so?—Yes; if they are wiped off the books of the bank altogether.

Chairman: But from the point of view of the public it is the same.

7601. *Mr. Khaitan*: As regards bad debts if they are wiped off, the debts are not existing in law. Is that not so?—No; so far as the legal liability is concerned it continues in spite of the fact that they have been wiped off the books of the bank.

7602. If it has been wiped off, do you still insist on the bad debts being shown in the balance sheet?—The balance sheet is only a sort of mirror which is intended to reflect the state of things, *i.e.*, all the transactions of the bank.

7603. What is the difference you make whether the entry is made in the account itself or whether it is made in a separate account as wiping out that particular debt?—The difference is that in one case when you write off that from the books of account altogether and present the balance sheet, the balance sheet is naturally a true and correct statement of the transactions of the bank.

7604. *Mr. Khaitan*: So far as the balance sheet is concerned the debt is wiped off, but so far as the legal liability is concerned it remains under the law. How is it possible therefore for a good balance sheet to show bad debts? I am of course assuming that it is a good banking concern making good profits and the provision for bad debts is drawn from the profit and loss?—There may be some secret reserve funds.

7605. Why do you insist on the thing being shown?—What will happen is this that on the assets side that account will be taken; hence we write it off and do not show it in the balance sheet.

In the case of doubtful debts supposing the aggregate of doubtful debts is 15 lakhs and they are doubtful to the extent of say only 5 lakhs. The bank director know it and the auditor is satisfied with it. According to your scheme bad and doubtful debts will be shown as 15 lakhs, provision for bad and doubtful debts made as 5 lakhs. Therefore on the right hand side you show bad and doubtful debts 15 lakhs; on the left side you would show provision for bad and doubtful debts 5 lakhs?—No Sir; 10 lakhs will go under the heading of good debts and 5 lakhs to the bad and doubtful debts. That is the usual practice.

7606. Do you mean to say that the portion which is realisable will be shown as good debts?—Yes.

7607. What is then the utility in having two entries?—The shareholders and the general public can have a good idea of what is really happening. Moreover it does not give extraordinary powers in the hands of the bank manager to play with the secret reserve without the knowledge of the bank directors. If the bad debts are of large amounts and if they are not shown in the balance sheet but wiped off from the reserve assuming that there are millions of rupees in reserve, the bank would go on advancing rashly and without the knowledge of the shareholders or the directors.

7608. *Mr. Manu Subedar*: With regard to these doubtful debts, I would like to understand from you one point. Every debt has some element of risk in it but only when the risk is increased, you call it doubtful. There are many banks and many auditors. Is there any general standard?—The general standard accepted by audit is that if a particular debt is irrecoverable for a long time and if interest is not realised, then after some time we regard that debt as doubtful.

7609. Therefore your standard is an expression of the period of loan and the payment of interest instalments. If you insist on a separate provision as a sort of check on the bank manager, would not the manager try to show more debts as good than as doubtful?—Quite so; in that case he will have to give the necessary information to the auditors who will decide whether a particular debt is good or doubtful.

7610. *Chairman*: Your Council suggests that with a view to protecting the interests of the creditors of the banks and inspiring confidence in the minds of the investing public concerning their position all banks having their head office or subsidiary offices registered in India should be prohibited from creating any mortgage or charge on their uncalled capital or any part thereof at any time during their existence. Will you kindly tell us if there have been cases of creation of such mortgages or charges without the knowledge of the shareholders or creditors of the banks concerned?—We do not know of any cases for the creation of such mortgage or charges without the knowledge of the shareholders or creditors of the bank. As the practice now goes, the directors can create such a charge without bringing the matter to the notice of the shareholders.

7611. That is the position though you are not aware of any concrete cases?—That is so.

7612. Would that be known to the auditors?—Yes, at the time of the audit.

7613. *Sir Purshotamdas Thakurdas*: Do your Council know of any circumstances where the call has been mortgaged in advance?—Managers may have been doing it privately, but it has not come to the knowledge of the members.

7614. There are about 10 or 15 banking institutions; you have not heard of any cases where the call was mortgaged in advance? May I therefore suggest to you that this is a bit of exaggeration that these calls are mortgaged in advance. I merely want to ask whether banks fail more on account of frauds than on account of anything else.—Various causes at times work simultaneously to bring about failures of banks.

7615. *Chairman*: Your Council is of opinion that banks should be prohibited by law from granting loans to their auditors either jointly with other persons or severally, on short or long term, with or without security. Will you kindly tell us whether banks now advance loans to auditors?—At times they may. On a matter of principle it is not in the least desirable.

7616. It has been stated by one of the witnesses that the certificate at present given by auditors is vague and non-committal. Will you kindly give us your views as to the adequacy of such certificates?—The certificate is neither vague nor non-committal. It is only tersely worded. It fully covers the responsibilities of the auditors.

7617. You are not aware of any cases where a bank has gone into liquidation and where the auditors managed to escape owing to the vague terms of the certificate?—We do not know of any cases. The certificate as it is worded fully covers the responsibilities of the auditors.

7618. *Sir Purshotamdas Thakurdas*: You know that in Bombay there is such a thing as the Shareholders' Association and you know that they claim to look after the interests of the shareholders in general. Now in their evidence before us they emphasised that the auditors' certificate was very inadequate?—What are the reasons?

7619. They think that it is too vague and too general?—If you read the wording of the certificate, you will say that it is neither vague nor non-committal.

7620. Do you not think it could be made a little more comprehensive specially in regard to investments?—In the case of investments generally speaking, the practice in England and such advanced countries is that schedules are attached showing the valuation of the securities and the auditors clearly state that they have actually checked the accounts.

7621. *Sir Purshotamdas Thakurdas*: Will you please refer to the "auditors report to the members of Barclay's Bank Limited" mentioned by the Bombay Shareholders' Association and let us know if that in your opinion is a good certificate?—It is a good certificate.

7622. *Chairman*: In regard to the Alliance Bank it was alleged that, owing to some defective action on the part of the auditors, the position of the bank was not disclosed as early as it might have been. If I recall the case correctly, the auditors had signed the prescribed certificate, but it was held later on that the form of the certificate was defective. Have you any recollection of the case?—No.

7623 & 7624. *Sir Purshotamdas Thakurdas*: Another witness has used these words regarding this auditor's certificate: "the farcical and nebulous nature of the certificate given by the auditors needs to be amplified and made more definite as to its meaning and implication"? This was regarding the companies' auditors' certificates. Of course you call it rather an extreme criticism?—Yes. We suggest that in the case of banks which have branches in various parts of India the statements that are supplied to the head office may be audited locally. That is being done, I understand, in the case of some British banks. If your Committee think it advisable, it may be made explicit that the statements from branches in India should be audited by qualified auditors before they are sent to the head office.

7625. The certificate given in regard to Barclay's Bank is only an amplification of what you do to-day. Therefore you have no objection to it?—No.

7626. *Chairman*: Your Council has recommended that no bank should be allowed to hold any real or immovable property except bank premises for its own use for more than a maximum period of years to be prescribed by law. Is it also the recommendation of your council that this maximum period in India should be the same as in Canada?—It may be reduced; that depends upon the local circumstances.

7627. What would be the views of your Association, whether it should be the same or it should be reduced?—As a matter of fact we know that in ordinary times there is some sort of fluctuation in the course of a decade or so in property markets. If it is made 8 years, the bank management will have sufficient opportunities to disencumber themselves of those immovable properties which they purchase in the course of their business.

7628. In Canada, the normal period is 7 years and in special cases it may be raised to 12. You want the period in India to be fixed at 8?—We suggest between 5 to 10.

7629. Some precise figure has to be put in. The normal figure should be 7, following the figure taken in Canada; then you would also have another maximum of 10 years in India?—The first figure may be 5 years and then extended if necessary. In all, the total number of years for which the bank would be entitled to have fixed property over and above its business premises would be 7 to 8 years.

7630. A maximum of 7 to 8, and the first 5?—Yes.

7631. Why do you want lower figures in India than are adopted in Canada?—In India we want greater facilities by banks to be given to Indian commerce and Indian trade. If banks are allowed to lock up their funds in immovable property for a very long time, it is to the detriment of the trade and commerce of the country.

7632. What about the industry of the country?—That will be managed by industrial banks.

7633. There is no industrial bank at the present moment? Until an industrial bank comes into existence, this grant of long term loans, on whatever security may be, falls on the existing joint stock banks and, that being so, would not the adoption of lower figures than Canada be harmful to the industries?—I do not think so.

7634. *Mr. Khaitan*: You said that as regards industries they will be taken care of by industrial banks. May I take it that in your opinion, so far as industrial banks are concerned, you would not like to have a similar provision?—That entirely depends upon the kind of industries.

7635. If it depends upon the kind of industries, then you cannot have legislation on the point. Is that not so?—In industrial concerns long period loans have to be made.

7636. Therefore you would not like a similar provision with regard to the industrial banks?—No; we are speaking of ordinary banking institutions.

7637. *Chairman*: In your written statement you have said "which otherwise would have found their rightful place in financing the trade,

commerce and industries of the country". Therefore the answer you gave me before that you contemplate the financing of industries to be done by somebody else is not wholly in accordance with the precise statement you make in the memorandum?—We refer to the future.

7638. This is also for the future. I put it to you that at that stage, you were only thinking of mortgages of lands, etc?—Yes.

7639. Not the mortgage of the block of an industrial concern?—No.

7640. Therefore, when we come to the mortgage of the block of an industrial concern, may not 5 years be too low?—Not necessarily.

7641. But may it not be too low? I know of cases where a commercial bank has given an advance to a particular concern practically continuously for even 10 years?—It may be an exceptional case.

7642. But has this figure of 5 years which you now give me, which is lower than the Canadian figure, been arrived at by you or your Association after taking into careful consideration the requirements of industrial concerns?—Not of industrial concerns.

Mr. Lamond: I think they are referring to property taken over by the bank.

7643. *Mr. Khaitan*: There may be occasions in which when the bank advances money to industrial concerns, the industries may have to be worked by or under the supervision of the bank for some time. Is that not so?—Yes.

7644. Similarly, are you contemplating the case of a bank whose business would be to advance money to landed properties. At the present time it is said that one of the defects of the banking system in India is that finance is not available on the security of landed properties from banks. Some witnesses have advocated that banks should be brought into existence for the purpose of giving advances on landed properties. Would you apply a provision of this kind to such banks also?—No; we are talking of ordinary commercial banks; not of the land mortgage banks.

7645. I am not talking of agricultural land mortgage banks but of urban mortgage banks?—We have in view the ordinary commercial business of taking loans, discounting, etc.

7646. Would you not accept for what I may call urban mortgage banks a provision of this kind?—No.

7647. In your opinion mixed banking should not be promoted in India. In Germany mixed banking is carried on with great success and some witnesses have advocated that mixed banking should also be carried on in India?—Germany is a very advanced country.

7648. You have said that this provision should not apply to industrial banks or to urban mortgage banks. If some other bank is enterprising enough to carry on mixed business, *i.e.*, commercial business, industrial business, and also the business of advancing money on the security of lands and houses, would you apply this provision to such a bank?—It is one unit; if it is one limited liability concern or one limited liabilty bank, the bank stands as a whole. It is only one department dealing with industries and in that case we would suggest that a limit be fixed as we have already made clear in the memorandum.

7649. *Chairman*: I should now like to put to you one general question. Will you kindly tell the Committee from your intimate knowledge and experience of audit of accounts of various institutions whether a bank auditor always gets access to the books he wants, whether he has sufficient materials before him and sufficient time to make a correct valuation of the assets of a bank and whether the audit as at present carried on can be improved upon and if so in what directions?—We have not heard of cases where a bank auditor has not got access to the books he wants. There is no grievance in this regard. We have not come across any instance of an auditor complaining about insufficient materials before him. If it occurs, he has to represent the matter to the directors and even to the shareholders. As regards the time, the auditor has to find out the time for himself because he has undertaken the responsibility to audit the accounts.

7650. This refers more to making a correct valuation of the assets?—The auditor's duty is not to make a valuation of the assets. His duty is to verify the assets with regard to the quantum of investments and with regard to the valuation as based upon the prescribed mode of valuation, and so on.

7651. But in verifying he must see that the valuation entered is the correct valuation?—In such cases he has to ask for expert reports or expert certificates if he is not satisfied with the certificate of the Management as in the case of immovable properties.

7652. Is he not hampered by want of time?—Even if he is hampered by want of time, he has to find the time; he has to do the work.

7653. If he is a conscientious auditor, he would not certify the balance sheet until he has had time to go into these things?—Yes.

7654. Can the audit as at present carried on be improved upon and if so in what directions?—The audit of banks can be improved upon if it is made compulsory to get the branch accounts also audited simultaneously.

7655. It is done only in some cases?—That is at the option of the Management. A list of investments may be appended and a certificate given that the auditors have actually verified the investments at the close of the business.

7656. *Mr. Lamond*: Is it not usually done now?—It is not separately certified. I would draw your attention to one other point, *i.e.*, to Section 282, of the Indian Companies' Act. That point arose in connection with the liquidation of the Alliance Bank of Simla. Section 282 prescribes penalty for officers of companies for making any false statement. The opinion of the counsel was taken who pointed out that there was some flaw in Section 282 inasmuch as it was only in the case of making false statements that a penalty was prescribed. There is no penalty attached for omitting to make a statement. The opinion of the counsel was that, according to the wording of the section, nothing could be done. If an auditor omits to make a material statement of fact you cannot touch him. You can only touch him if he makes a positively false statement.

7657. Therefore you want that provision to be amended so that the auditor can be brought to book even if he omits to make a statement of material fact?—Yes.

7658. *Mr. Manu Subedar*: You are aware that at present the auditor takes on more than one audit; in fact he takes on a large multiplicity of audits and in some cases the closing audits of the year fall at one and the same time. He does not therefore do the bulk of the work himself but gets it done by his clerks?—By persons equally qualified as himself.

7659. The professional services which in the case of a bank would be expected from him would be in his individual capacity. The audit goes to him in his own name. Generally all the details are done by his assistants?—By his assistants who are qualified.

7660. A suggestion was made to me that the men who have to do this work are sometimes paid Rs. 60 or Rs. 70. If I were a shareholder of a bank and if I felt that some material portion of the audit was done by a little man like that whom the management can get round, what would I feel?—The principal man in the staff has to report to the partner in charge of the audit.

7661. And you think it is satisfactory?—Yes.

7662. You would not suggest that any restriction should be put on the number of audits a man takes?—An auditor can manage any number of audits if he has a good, large and efficient staff.

7663. But you know that in the case of a doctor or lawyer, I would not feel the same satisfaction unless the same doctor or the same lawyer dealt with me? If he left me in the hands of his assistants, I cannot feel safe?—It is a different case in the case of a doctor.

7664. The same thing applies to the case of an architect?—An architect has his staff, his clerks; he has his surveyors, draftsmen, etc.

7665. You are satisfied with the present system with regard to auditors?—Yes.

7666. Is the scale of fees adequate or too little or too big?—In some cases it is adequate and in some cases it is too low.

7667. It is not too big in any case?—No; it depends upon the question of supply and demand. It is a matter of mutual arrangement.

7668. Would you have the same scale if additional duties were put on the auditors?—We do not know what the scale is at present.

7669. Is the scale uniform at present in the case of bank audits?—It entirely depends upon the kind of work and the volume of work that is done.

7670. *Sir Purshotamdas Thakurdas*: I suggest to you that with the increasing powers which an auditor requires it is up to an Association like yours to fix your scale of fees so that it cannot be said that the Board overpaid the auditors and bought them over in a particular case?—It is a very good suggestion.

7671. Suppose an auditor asks for Rs. 1,500, the Board thinks it is too much and after a little talk over he fixes it at Rs. 1,000. Some people may think a thousand too much, the auditors may think it is too little. Do you not think it is up to you to fix a scale of fees which could be accepted by everybody?—In fixing the scale we have to take into account a variety of factors.

7672. You can take into account everything but I suggest to you that unless you fix your fees, there will always be this charge that the directors either paid you too little or overpaid you?—We appreciate your suggestion.

7673. If a bank has 50 branches, it will not do for the auditor to charge for each branch Rs. 500. Therefore if you have a fixed scale of fees, people will welcome auditors and say they are not prohibitive. At the moment, I do not know whether you can say that. Some auditors have been rather on the high side, some put down too low. This is highly unsatisfactory and hence all these criticisms regarding auditors being bought over by directors. Have you any views on this point?—So far as my firm is concerned, we think we are adequately paid.

7674. We are not talking of any individual. Your firm occupies such a respectable position in Bombay that one could not get you unless he adequately paid you. We are thinking of the juniors who are coming up and who are the hope of the future. What about them? May I ask whether it will be possible for you to fix a fee on the turnover of a concern?—It is not possible. It can only be done on the volume of work and the time occupied.

7675. It would be difficult to decide the volume of work?—It can be decided according to the time.

7676. Can you tell me whether there is any scale of fees fixed in any country?—In England there is no fixed scale but chartered accountants charge certain fees which are practically on the same level.

7677. Chartered accountants are the most expensive auditors in India. Let us have something cheaper?—As a matter of fact, the Institution of Auditors is patent to the British Empire and to the English-speaking world. The auditor's profession is not so advanced outside the British Empire.

7678. In America, Germany and Japan?—America is an English speaking country. It is not so advanced in Japan or other European countries.

7679. Will you kindly let us have your Council's views on that point?—We shall consult our Council in regard to that and I shall write to you whether they will be able to help the Committee any further on this matter.

TWENTY-FIFTH DAY—*contd.*

Wednesday, the 24th September 1930.

PRESENT :

SIR BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Mr. MANU SUBEDAR.
Dr. L. K. HYDER.
Mr. W. LAMOND.
Lala HARKISHEN LAL.
Mr. R. W. BUCKLEY.
Mr. JADU NATH ROY.
Mr. G. K. DEVADHAR, C.I.E.
Mr. NALINI RANJAN SARKAR.
Seth HAJI ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Dr. Nemenyi, of Budapest, Hungary was then examined.

7680. *Chairman*: Will you very kindly tell us your experience in the field of banking?—I am from Budapest, Hungary. I have studied law, economics, and politics. I am a doctor of political science. I have been connected with Central European banking and finance for more than ten years and have undertaken various journeys in order to study the banking systems of Germany, Switzerland, Austria and Czecho-Slovakia, etc. I have been an Assistant Director and Manager of the Foreign Exchange Department of the Hungarian Commercial Credit Bank and a partner of the banking firm Nemenyi & Co., in Budapest. During the time of the stabilisation of the Hungarian Currency my services were lent by the above mentioned bank to the Government of Hungary to render assistance to the organisation of the Central Board of Foreign Exchanges and I was connected with the drafting of the ordinances relating to the above Board. The Hungarian National (Reserve) Bank was established in 1924 for taking over the management of currency, credit and note issue from the Government and in this connection I have gathered a good deal of experience relating to the organisation, establishment and working of new Reserve Banks. I came out to India in 1927 in order to study Indian economic conditions in their relation to Hungarian exports and joined Messrs. Siemens (India) Ltd. in June 1927. I have been a student of banking and currency questions since 1912 and have studied Indian economic conditions extensively and intensively since 1927.

7681. *Chairman*: You have been kind enough to send us a full and clear memorandum on the subject of banking and you have since supplemented it by giving us certain points on which you desire to make a detailed oral statement. The Committee will listen with great pleasure to anything which you may have to say. Now, will you please make your statement?

The Statement.

Since January last, after completing my statement of evidence which I have submitted to your Committee, I have tried to go into a detailed

study of the Indian banking problem by reading various Government Reports, Reports of Provincial Banking Enquiry Committees, books relating to details of Indian banking, further more by travelling in some of the provinces and by making personal enquiries relating to every line of the economic life. These studies have induced me to withdraw some of my suggestions described in my statement of evidence as those had been influenced chiefly by my previous European experience. Now, I venture to put forward my modified ideas resulting from my observations of Indian conditions. The following short summary will indicate the leading principles which are based, however, on the establishment of a proper Reserve Bank and let us call it of a Central Banking Board or some such institution. I firmly believe that the real development of Indian banking cannot take place before all the questions have been properly solved. Therefore, I beg to submit first my ideas relating to the working of a Reserve Bank in India.

The Royal Commission on Indian Currency and Finance of 1926 and the Legislative Assembly, when discussing the two Bills on "The Gold Standard and the Reserve Bank" in August 1927 were unfortunately so much interested to discuss details concerning the question whether the bank should be a bank of shareholders or a State Bank and who should be the directors, that they did not deal with the chief question of what would be the result of its working or what influence such a bank would bring to bear upon the general situation in the country. Although the Bill was discussed again and again in September 1927 and February 1928 the Assembly dealt only with the establishment of the bank and the proposed provisions of the charter, *i.e.*, only with the formal questions relating to the future Reserve Bank and they have not tried to explain the consequences of the working of a Reserve Bank in India and its influence on the economic conditions of the country. In paragraph 102, the Hilton Young Commission Report has only outlined the working of the future Reserve Bank without entering into details. "Experience in other countries shows that with the creation of a Central Bank and the consequential development of a sound banking system the bill market comes into being in a surprisingly short time." In South Africa it did not come in so soon and I have had the opportunity of hearing high officials of the Finance Department of the Government of India who have expressed their doubt whether such a bill market could be created in India. If I am permitted to go into details, I believe there are possibilities which will create a sound bill market. The following point is really my reply to your Committee's question 9 of Section V. The question reads: "Do you support the suggestion that banks in India do not find a sufficiently large number of bills against which they could make advances and that this particular instrument of credit of which the banking systems in other countries make large use is not available in sufficient quantities in India? If so, what are the causes of this and what remedies do you suggest?" This will be one of the chief points that I will discuss just now, as to how a proper management of the future Reserve Bank can induce the Indian market to have a sufficiency of bills, but I must refer in this connection to the speech delivered by Mr. Jamnadas Mehta in the Assembly relating to the question of the Reserve Bank. I will quote a portion of his speech. On the 30th August 1927 when the original Gold Standard

and Reserve Bank Bill was being discussed in the Assembly, Mr. Mehta said: "There are two opinions about a Reserve Bank. Some think a Reserve Bank should be the foundation stone under the shelter of which banking will develop in a country, and under which production will be stimulated, trade will be encouraged and the social life of the people as a result of a stabilised currency will proceed on a more normal course. Others on the contrary hold that until a network of banking institutions has been developed in a country there is no necessity whatever for such a luxury like the Reserve Bank".

I do not know what Mr. Jamnadas meant when he said this. How a Reserve Bank can be called a luxury bank passes my comprehension.

As regards the first effort at creating a Reserve Bank, I must say that that has caused a rather vicious circle. As I have just stated, I firmly believe that the development of banking in India cannot take place before a properly established Reserve Bank will be working and before there will be a banking board and the Imperial Bank question is properly solved.

Mr. Jamnadas quotes an opinion; the idea is that banking institutions must be developed first, now that is a vicious circle. He says: "The curious part of all this is that while this country is being given this alleged boon, almost all the British Dominions and Colonies refuse to have a Reserve Bank, and even in England there is nothing like the Reserve Bank that is proposed here. There is no Reserve Bank in Canada, there is no Reserve Bank as such in Australia. I do not know that there is a Reserve Bank in New Zealand, and a Currency Commission recently appointed in Ireland came to the conclusion that it was not necessary to have a Reserve Bank in the present stage of the development of that conutry. The only unfortunate country that has so far got a Reserve Bank is South Africa, and ours is the second country within the British Commonwealth, as it is called, which is being subjected to this experiment." ..... "But it is said that outside the British Empire there are Reserve Banks in European countries and in the United States and that more Resserve Banks are being started." Well, Sir, all that I can say is that there are Reserve Banks and that those Reserve Banks are working well. In my opinion if there were a similar Reserve Bank in India, India would be much happier than it is to-day without a Reserve Bank.

Further Mr. Jamnadas Mehta says, "I ask the House not to expect too much, not to build any hopes of an extravagant character on a Reserve Bank even if we start one. After all it is an instrument for doing something. It is not the thing itself."

I think I will have to link up my ideas to this sentence, because this covers exactly my ideas. A Reserve Bank is like a motor car or like a polo pony. If you have got a Rolls Royce car but a bad chauffeur to drive it; or if a friend of yours bought a polo pony for say Rs. 10,000 but had a bad jockey to ride it, neither the car nor the pony could give a good account of itself.

The Reserve Bank will not depend upon the charter. As Mr. Kisch, Financial Secretary to the India Office, has said in his recent book called "Central Banking", the work of the Reserve Bank is not very much connected with the charter; it is influenced only by the personality of the management.

I shall now describe such a system of management of the future Reserve Bank which will induce the Indian mercantile world to furnish the market with suitable bills. First of all I have to refer to the technical portion. As Mr. Mehta has also explained, there is a different kind of a Reserve Bank in England. I feel sure, Sir, that the members of this Committee know the working and the system of the Bank of England, so I will not say a word about that. I must say, however, that the Bank of England system is entirely different from the system of Continental banking which is based on the so-called proportional system. The English system is based on what is called the fiduciary system; it is described as a more stiff system and is not so dangerous in England where the banking habit is more developed than elsewhere. This is a commonplace which I need not repeat before this Committee. Practically everybody agrees that the Continental or the proportionate system is one best suited to the conditions in India. If I remember correctly Sir Purshotamdas Thakurdas in his Note of Dissent to the Hilton-Young Commission Report also had no objection to this system. However, it is agreed that the proportional system is the correct system for India because in India the banking habit or the cheque habit is not so well developed; therefore the stiff system of the Bank of England cannot be applied so well to Indian conditions as in England. Therefore it has generally been admitted—and I am of the same opinion myself—that the proportionate system is the correct system for India.

This is what they have said in the first Reserve Bank Bill before the Legislature: "The Reserve shall consist of gold coin, gold bullion, gold securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department as hereinafter defined. Of the total amount of the Reserve, not less than 2/5 shall consist of gold coin, gold bullion or gold securities.

I beg to point out that this is fairly important in connection with the creation of the bill market.

Again the Bill says, that the remaining 3/5ths "shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange and promissory notes drawn and payable in British India as are eligible for purchase by the Bank under sub-clause (*a*) or sub-clause (*b*) of clause (2) of section 17 or under section 18".

From this it appears that Sir Basil Blackett's Bill is based absolutely on the system which is adopted more or less in every country on the Continent; this system has been working for 60 or 70 years. Of course the proportion of bills which might be discounted is not fixed. That means to say that out of 100 per cent., 40 per cent. must be gold; usually in Europe it is 25 per cent.; but the Indian proposition of 40 per cent. is higher. But I think it will be a safe percentage for India.

I hope the Committee would not mind if I go into details. It has been very much doubted if a bill market can be created in India and in giving opinion on a complicated question such as this, I have to go into the proper, legal, technical foundation, showing what bills are meant.

> "The purchase, sale and re-discount of bills of exchange and promissory notes, drawn and payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a scheduled

> bank, and maturing within 90 days from the date of such purchase or re-discount, exclusive of days of grace."

These are eminently important points in connection with *bona fide* commercial transactions. Eminently important is also the question of two signatures, to which I do not agree. India is not yet advanced to admit the Reserve Bank accept bills bearing only two signatures; three should be required. I will not tire the Committee by reading para. 3 which refers only to such bills as are drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, etc. That means commercial bills will be 90 days' bills and agricultural bills six months' bills. This has also been adopted in Hungary, which is also an eminently agricultural country. For agriculture it is quite useless to give three months' credit. It would not help the ryot at all. Then they speak in paragraph 18 of the power of direct discount:—

> "When in the opinion of the Board, it is necessary or expedient that action should be taken under this section in the interest of Indian trade or commerce, or for the purpose of enabling the bank to perform its functions under this Act, the bank may, notwithstanding any limitation contained in sub-clauses (*a*) and (*b*) of clause (2) of section 17, purchase, sell or discount any bills of exchange or promissory notes drawn and payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days from the date of such purchase or discount, exclusive of days of grace."

If I remember correctly, this is what you call the open market operations. I do not think it would work in practice. I believe I have to explain about bills. Later on I will have to criticise two points, in connection with the *bona fide* transaction and the two signatures. Now we come to the practical question relating to the problem whether in India it would be possible for banks to find such bills. After studying all these problems, after discussing this question with various bank managers, both Indian and British, after discussing it with the Controller of Currency and other high officials of the Finance Department of the Government of India, I decided to go and make my own enquiries. After all, if I am honoured by your Committee to express my views on this subject, I believe it is also my duty not to repeat such words as I have read in books, but speak about my personal informations. I have asked a lot of merchants all over the provinces, all kinds of dealers, importers, etc. To make the matter simple, I shall repeat a talk which I had with a most eminent electrical dealer in Calcutta. The firm's name is Messrs. Deva Dutta Saroghi and the partner with whom I had the talk is Mr. Bala Bux. I asked him whether he believed that if a Reserve bank were created in India, he would be in a position to discount his bills with banks to a larger extent than heretofore, and whether as a dealer selling goods constantly up-country to various good, old and established dealers, he would be in a position to supply the bank with such bills on the surety of which a new source of credit would be opened. He replied that there would be no such bills. He is a Marwari dealer, absolutely self-educated and he came to Calcutta from Rajputana some years ago and did not even know how to write or read. I explained to him all the details in a popular way, about the working of the Reserve Bank in connection with discounting and re-discounting bills. In this connection I shall refer to a part of my memorandum which perhaps was not

clear. Some of the exporters (I refer to our firm Messrs. Siemens, India, Limited) have all kinds of goods for sale in stock. If a big electrical firm have, in stock say, 6 or 7 lakhs worth of goods and sell Rs. 20,000 or Rs. 30,000 worth to an Indian firm like Deva Dutta Saroghi without, let us say, any further documents, then we receive the signed chalan from the merchant and we issue an invoice. When they sell it on a credit basis, let us say, for 60 or 90 days, they issue an invoice only. The 60 or 90 days credit is only based on the signed chalan and nothing else and the signed chalan is only a bit of paper ordinarily signed by coolies. If now a collecting sirkar of a firm comes and asks for the money on the due date, he is usually kicked out. Take for instance a lady going shopping. If she is told that she would be given Rs. 300 credit, but would have to sign first a draft and that this draft would be presented to her by the Imperial Bank of India, then she would be a bit afraid when the Imperial Bank would come after 60 days and ask for payment. Therefore I have clearly to explain that, we give credit to dealers, but they have to accept a draft for 60 or 90 days through the Imperial Bank. This has nothing to do with discounting but such bills have already come into existence on this basis. The dealers did not like to sign these drafts in the beginning but we had to force them to do so and to tell them that we would give them credit even for Rs. 60,000. I told Mr. Bala Bux that it would be good for him to do so. I asked him, "If you go to the up-country dealer, do you think he will accept a draft." He said "I will try." After two months Mr. Bala Bux came to me with a big bunch of drafts ready to be re-discounted, being *bona fide* first class commercial bills having two signatures, say one in Calcutta and the other in Cawnpore, which would be considered good by any bank. I hope I have been able to explain the difficulty whether bills will be forthcoming or not. You may have a magnificent charter and a most beautiful building with beautiful architecture and a Managing Governor who might be the greatest authority carrying a salary of even Rs. 15,000. He might even be the Right Hon'ble Montagu Norman. What I say is, it does not depend on the Managing Governor. For the success of these banking institutions much depends on the rank and file. Working of such institutions does not depend on the superior *burra sahibs*, but it really depends on, if I may call it, the non-commissioned soldiers. I should be able to furnish plainly written books to enable even the ordinary merchant to understand the benefits of drawing bills. I am sure then these bills will be forthcoming in large number, but this is really a question of educating the public and so on. It is really a leading question how bills can be created in India. It is, I believe, an entirely new point not described in books. This is a point which relates to the question of economic policy. It is really a question which depends on personality or personal influence, but it really is a question of motor drivers and the cleaners and not the question of the *burra sahibs* who ride them! Another most important part is the question of the bank rate that I was told up-country by practically all the British bank managers that, "we are getting cheaper money in London, why should we go to the bank to discount bills when we get it cheaper from the discount market?" Similarly other Dutch and Japanese banks say, "we do not much bother about an Indian Reserve Bank." If the management of the Reserve Bank will be in proper hands, even the proud American banker will give bills to be discounted to the Indian Reserve Bank for the following reasons:—Take the present bank rate of the Imperial Bank which we might call the rate at which the bank

advances on gilt-edged securities. What I want to convey is that this system of having varied advance rates is not very good as the system does not help the economic life of the country in any way. Therefore, my view is that the introduction of discounting of bills will be much better, although it might even take perhaps another 10 years before we can have a proper discount market in India even if we work on the basis of proper education and personal work. Then the Reserve Bank, as all the world over, will be able to discount bills at a lower rate than the rate for advances on Government securities. I find from the Controller of Currency's report for 1928-29 that in February the bank rate was 7 per cent. which was virtually the advance rate while the Imperial Bank hundi rate was 7½ per cent. Now, what I say is if this were to happen in the case of the Reserve Bank, no bills would be coming in. My whole point is therefore this: that there must be a difference between the discount rate and the advance rate and that the latter should always be slightly higher than the former. Only if there is a fairly good difference in favour of the former, do I think that the present position will gradually change and the people will get round to the habit of drawing bills and thus with the re-discounting facilities funds could be easily drawn. If a bank manager can say, "I can get my money at 2 per cent. but I will charge 7 per cent. to my clients, efforts will be made to persuade all merchants and dealers to furnish the banks with bills and then when the bills come in, the discount rate will be raised gradually to a level according to the busy or slack season or in accordance with the general money rates all over the world. The Reserve Bank has to co-operate in a way always, with the general policy of the leading Reserve Banks.

I believe this portion is fairly clear.

Chairman: If we have any questions to ask, we will reserve them till tomorrow.

Witness: I have to touch a most important question in connection with these bills. This relates to Mr. Nichols' evidence before the Hilton-Young Commission. Mr. Nichols was the late manager of the National Bank of India and he had a good deal of practical experience in connection with Indian banking. This is what he said:

Q. "*Sir Henry Strakosch*: But if it had the right of note issue, and if one of the conditions of note issue was that apart from a certain percentage of gold it could put into its issue department local bills, would not that strengthen it?

A. What sort of bills? It is very difficult in India to discriminate between bills which actually represent transactions in produce or commodities, and bills which are simply accommodation bills."

Q. "But so it is in every other country?

A. Not to the same extent in India—much more difficult in India."

Now this is of utmost importance. If you have local boards everywhere in all the important centres like Cawnpore, Bombay, etc., there will always be huge discussion as to whether a particular bill is *bona fide* (Such boards in Hungary consist mostly of elderly merchants of long standing.)

As regards Mr. Nichols' second answer to Sir Henry Strackosh above, this exactly represents my own opinion based on my 10 years' experience in Hungary. You know very well that merchants all over the world, in England, in America, on the Continent, in fact everywhere and always try to manufacture bogus bills; and India cannot be an exception to the

general practice. It is awfully difficult to detect this; it will be difficult in India too. Let us assume that it will be just as difficult in India to find out whether a particular bill is really a *bona fide* bill as elsewhere.

Then we come to the question of two signatures, as stated in Sir Basil Blackett's memorandum submitted to this Committee. He calls it the introduction of acceptance credit into the Indian money market. I am sorry I have to contradict Sir Basil Blackett who is such a great authority; I am only a young man, but I hope I may be excused for expressing an opinion on his memorandum.

May I say that Sir Basil Blackett's experience is based on the very efficient and highly developed London money market which is the most advanced money market in the world. He has got his experience in London whereas I who venture to criticise his statement come from Eastern Europe. Allow me to put this as my excuse, namely, that I am coming from a much simpler country where the conditions are as simple as those in any Asiatic country. Let me tell you that the rural conditions in Hungary are almost identical with those in India. In Germany again the credit system is a much more advanced system, while in all the Eastern European countries conditions are very much similar to those in India in many ways.

I have ventured to state in my memorandum that I am opposed to the question of acceptance credit in connection with the present banking problem in India, because first of all we should go step by step and also because it will be a very hard work, a work which will take about 10 years to establish a proper discount market in India. If we take the historical point of view all over the world, we find that first of all the discounting and rediscounting of commercial bills has been developed, because to the human mind it is so natural. As a merchant I sell my cotton goods to another merchant or a Bombay millowner sells his products to up-country dealers. I mean it is so simple and so natural that this millowner will ask, say, a merchant in Muzzafurpur to accept a draft and if the millowner wants to ask his bank to discount it, the bank will want the merchant's signature; then there will be the signature of the Bombay mill. Then, say, the Central Bank of India will later on rediscount the bill with the Reserve Bank; thus it would be rediscounted with three signatures. Sir Basil Blackett says that the bill could bear only two signatures. I am afraid that I have to propose that in the next Reserve Bank Bill, three signatures should be required; for the first ten years at least. I do not think that Indian economic conditions are so strong that we could try such a dangerous credit as acceptance credit is. It is at present the most developed and highest form of financing industry, trade and so on. Even the British credit system was misused in Europe after the war.

This, I believe, makes my statement clear. Acceptance credit should not have been mentioned in connection with the Reserve Bank. I had such difficulties even to explain about discounting to the dealers who are simple men. At the same time, the introduction of discounting bills and acceptance credit would lead to a disastrous muddle. Sir Basil Blackett was here only for a few years and he was not in touch with the simple and plain men, I mean the dealers, and his ideas are based on the London money market. I think my explanation is based on reasonable facts. I believe that in the beginning three signatures would be required.

We may now turn to another part of the question which relates to re-discounting. The banks have all these bills in their portfolio. The important question to be considered in this connection is whether banks will not be shy at the beginning to go to the Reserve bank in order to discount the bills. In this connection, I might quote the evidence given by Mr. Bowie, General Manager and Director of the Allahabad Bank, Limited, before the Hilton-Young Commission. Sir Alexander Murray whom we know as a practical man and whose questions therefore relate to such a practical point, asked:

> "I do not quite understand the reasons you give for your reluctance in approaching the Imperial Bank in the event of your requiring assistance. Fortunately you never required to approach the Imperial Bank for assistance, I take it?"

Mr. Bowie's reply was:

> "I would not say 'fortunately'. It was part of our policy not to do so."

Sir Alexander Murray then asked:

> "As far as I know, it is the practice for banks generally in India to come to the Imperial Bank, and the advances given by the Imperial Bank to banks generally at times have reached about 10 crores of rupees. Why do you act differently from the other big banks in India in that respect?"

Mr. Bowie's reply was:

> "Simply for the reason that in 1913 we got a lesson when a rumour to our discredit was about that we had asked for assistance from the Imperial Bank."

I think this is quite clear. If the manager of a bank which is affiliated to the P. & O. bank and as such is in the large Inchcape group, feels so frighteneed to approach a bank for simple re-discounting facilities, I must emphasize that Indian joint stock banks which are in their infancy and which have to struggle so hard for their life, would be much more shy to approach a bank in the beginning. Therefore, I beg to point out that this has a most important connection with the subject we are discussing.

7682. *Chairman*: I would like to ask you one question at this stage. You talk of three signatures. The three signatures would only be required at the re-discounting stage?—Naturally.

7683. You gave an instance: Muzaffarpur buys from the millowner. That is the first signature, the second signature is when the bill goes from there to the Central Bank of India (and not the Reserve Bank). At that stage only two signatures are required and therefore only at the stage of re-discounting would three signatures be required?—Actually, re-discounting cannot take place without three signatures, but acceptance credit in the case of the open market operations comes in with 2 signatures. As I have explained, it is absolutely not necessary to disturb the Indian market in the beginning of this acceptance business. I would not have mentioned it for India. Let us go gradually in a conservative and reasonable way, and develop Indian banking. The coming in of the acceptance credit would be very dangerous. I am very sorry I have again to criticise the Hilton Young Report. When I travelled in the provinces I interviewed several bank managers and I came to the conclusion which is also very strongly in favour of Mr. Bowie's point as tendered in his evidence before the Hilton

Young Commission. If they try to re-discount bills, then everybody will say that the Bank is falling. We know of the unfortunate runs which the Central Bank of India had to experience. Such being the case how can Mr. Pochkhanawala go to the Reserve Bank again and allow the belief to be spread that the bank is going into bankruptcy, which has however not been the case. I must say that there is a misunderstanding prevailing regarding this re-discounting. I felt all through my enquiries that rediscounting is understood in India in such a way that banks instead of keeping their liquid assets in gilt-edged securities, would keep the rediscounted bills. If the bank is in a weak position, then it can approach the Reserve Bank and ask for assistance, as the Hilton Young Commission puts it, "in times of stress." For many years I had the opportunity to see the working of continental reserve banks and I had the opportunity to discuss these questions with several bank managers in Europe. Therefore, I am not afraid to criticise this paragraph 83 of the Hilton Young Committee's Report. After giving all possible explanations about the future Reserve Bank for India they say in paragraph 83: "Not until then does the commercial banks' most legitimate asset, *viz.*, a short term advance against goods in the form of a commercial bill, become a quick asset capable of prompt realisation in times of stress. The system, in fact enables the commercial banks to regard their holdings of commercial bills as their secondary reserves." My submission is that this statement is entirely wrong and I shall be very glad to put my opinion before the foreign experts that might come in shortly to join your Committee. I am opposing this point. This statement is absolutely wrong because the re-discounting of bills is going on in the ordinary course of daily business. When I was asked by one of the leading Indian politicians in January last about the system of industrial banking in Europe, I told him, if you come with me to Europe I shall not be able to show you any industrial bank at all. If you go to Berlin, people will say they have no industrial banks of that type but they are of a mixed type. If I go to a club with you, you will find two or three old gentlemen sitting in a corner and discussing the question of industrial finance and how to raise new capital and so on". Well in the same way the future Managing Governor will have to explain the way of discounting bills privately to the bank managers, whether Indian or European. Mr. Bowie was also frightened to go to the Imperial Bank for advance. One cannot write letters on that point. This is after all a matter which has to be dealt with privately in after dinner parties. This is after all a question of education and personal influence. Whether this new Reserve Bank will be working properly or not will be in a very little way connected with the charter. Whether a State bank or not it will depend on a powerful personality alone. State bank's director can be anybody. If you will have the best charter and not the right sort of man to guide the bank, then it will prove to be the same failure as it happened in South Africa. This South African question has often been quoted by Mr. Jamnadas Mehta in his Assembly speech and he has often said that we would not care to be like South Africa in this matter. Therefore, I beg to be allowed to quote a few lines from the famous book edited by Parker Willis and Beckhart on "Foreign Banking Systems", which is almost always considered to be an authority in these matters. Speaking about the credit system he says "It must be emphasized that for historical reasons a large proportion of the internal trade of South Africa is unfortunately an open account, though

the practice is universally condemned. Many large firms, especially in Natal, will neither give nor accept bills, and one large Cape Town merchant stated in 1920 that in his own business the proportion of bills to outstandings was only 5·8 per cent. The evils of the system of open trade credit are apparent and since its inception the South African Reserve Bank has endeavoured to get business more on a bill basis, but with limited success. It was because of this system, and the consequent lack of suitable high grade commercial paper for rediscounting, that in 1923 the Reserve Bank, by the Currency Amendment Act, was given power to utilize short-date Treasury Bills, both of the Union and of the Imperial Government". The fact was that the Reserve Bank in South Africa did not succeed to discount bills or to issue notes on that basis.

If a man who understands the management of a Reserve Bank would have gone to South Africa, he would find that there can be bills created just as elsewhere. It is a question of management; it is not a question of the charter. The Reserve Bank has to be so managed that a failure will not happen in India.

7684. *Chairman*: I do not wish to interrupt you, but I would like you to consider whether we should not read what is stated in paragraph 83 of the Currency Commission's Report in conjunction with what they have stated in paragraph 116. Perhaps you can give us your views about it tomorrow.—I must say that this is not a perfect defence of the Hilton Young Commission's Report, because if you take paragraph 83, you find that the last sentence is so strong while the other is so mixed up with various other points.

Q. Of course it is only a question of interpreting the word "stress". They might have referred to the fluctuating demands for currency in the different seasons. They might not have referred to the precise stage when a bank is actually failing.

A. This portion of the Hilton Young Commssion's report has induced many bank managers to believe that it is meant only as an emergency case. It is the prevailing opinion in the Indian banking world that this kind of rediscounting is a kind of emergency case. I have found this all over the country I am sure I can prove this in camera; I could give you names and names.

7685. *Chairman*: Are you now going on to your second Section? Have you finished your section on the Reserve Bank?—I will finish it shortly. I was going to refer to the automatic expansion and contraction of currency. We have this artificial system of automatic expansion in Hungary and in contact with this system the discounting system on the proportional basis which really provides an automatic expansion because in the busy season lots of bills come in and naturally the currency will expand. I believe this has nothing to do with the problem of the exchange rate at 1/4 or at 1/6, because I do not think that it is inflation; this is only a reasonable issue of bank notes based on real business, goods, transactions, etc. I am sure that the future development of Indian economic life will depend largely on the good effects which the discounting of bills will have on trade, and on the expansion of every aspect of the economic life.

I do not think I should discuss the theoretical question whether wealth can be created through credit. Those who are interested in this theoretical and economic question could privately discuss it

with me from any point of view. Now there is the question whether wealth can be created by credit. My opinion is: it can be. I believe that wealth can be created by credit on a sound basis and I also believe that wealth can also be created by foreign credits. This is opposed by many Indian gentlemen for different reasons. After the War, countries in Europe have built their new economic life only on the basis of foreign credit, because after all if you get credit at 5 per cent., you have to pay the 5 per cent. and repay the capital. If you make 15 per cent. profit, new wealth could be created by this credit.

Another advantage is that it will put Indian joint stock banks on a stronger footing as they will have new money resources as the foreign banks have from the Dutch countries, from America or from Japan. This bank will of course help the joint stock banks in connection with the proper development of a Central Banking Board in case of emergency and the Indian joint stock banks will cease to be isolated units which point, I think, is emphasized in my memorandum. They will be linked up properly under the leadership of the Reserve Bank.

The next advantage is the automatic expansion and contraction of currency, regulation of credit and maintenance of stability of the exchange. These would be in one hand, *viz.*, in the hand of the Reserve Bank whatever the Government may be. There is no difference from this point of view between the present Government and, let us say, the Dominion status Government or Swaraj Government. It would not constantly be accused of wrong monetary policy. In European countries the position was that so long as Governments were dealing with currency questions, they were being attacked by everybody and accused of their policy being wrong. After the subject was taken over by the Reserve Banks there have been no criticisms.

The next advantage is that the entire economic life would be better balanced and settled. This is a psychological factor, but it is very important. The economic life of a country cannot really flourish if people are constantly excited for certain reasons. I do not want to touch politics, but living in this country, I hope that the political questions will be settled in such a way that the economic conditions of the people will be developed.

I sum up the chief questions connected with the Reserve Bank. The sole right of note issue will be in the hands of the Reserve Bank, the control of the rate of exchange, the handling of Government balances and Government debt, that is to say, the administration of Government debt. The Government loans will be managed by the Finance Member or Finance Minister. Then the Reserve Bank will deal with Government remittances. It will be a banker's bank in the proper sense. It is naturally understood that such a Reserve Bank cannot be a bank dealing with clients and it cannot compete with joint stock banks. It will, of course, have supreme control of credit, but I think it will always be necessary to co-operate with the Central Banking Board. I feel sure, whether it is a State or a shareholders' type of bank and whatever the Directorate may be according to the decision of this country, that the working of the bank will not depend on charters, or on directors; it will depend solely on the personality and skill of the management.

7686. *Mr. Manu Subedar*: When we were discussing bills which the Reserve Bank would be authorised to re-discount, it was stated that Government bills, amongst other things, shall be drawn and made payable in British India. You mentioned that if a proper re-discount market were

created in India, even British bankers or people from other centres might take advantage of the Indian market. Would these bills come in for rediscount?—No, that is impossible. Foreign banks do some sort of commercial business too.

7687. There would be no direct link with foreign bills?—No, foreign bills can appear in the portfolio of a Reserve Bank only as a part of their currency reserve.

7688. If they desire as a matter of policy to have balances at any other centre for some international purpose?—Not only for international purposes but they may desire to have it on other safeguards. The Hungarian Reserve Bank is obliged to have much money in the Bank of England.

7689. Then they would be able to buy on London?—I would not call that discounting; they would include it in the gold currency reserve. It has absolutely nothing to do with the bank rate and nothing with the internal trade of India.

7690. We had before us various criticisms of the existing system in India and one of the criticisms was that large banks give cash credit to large firms, and it is on these cash credits with exchange banks as well as with the Imperial Bank that large merchants draw their funds, purchase produce, the produce is moved and paid for by funds which they draw against the cash credit previously arranged. Let us refer to jute in Bengal. If a jute merchant goes to the exchange bank or Imperial bank and he is a first class party, they would give him a cash credit for 10 lakhs of rupees and he would draw on this cash credit cheques as he likes?—Yes.

7691. Therefore no hundis emanate in connection with those purchases?—No.

7692. We have been told that the hundi system has to some extent been affected by the cash credit system which has come into vogue and which tends to place larger reserves in the hands of larger merchants and cripple the smaller merchants. What would you say to this?—I have forgotten to speak about emergency currency and about rediscounting of hundis based on Act XXVI of 1923, according to which the total quantity of the emergency currency has been increased from 5 to 12 crores. This portion of the activity of the Imperial Bank which is based on this emergency currency is quite favourable. It helps to create hundis, but the cash credit system of the banks is very unfortunate. The present position is not so very important, but we have to look to the future when a Reserve Bank comes into existence and it is expected that bills would come in.

7693. *Chairman*: I think you already referred to it by saying that in South Africa it is the open account system which is standing in the way of the development of the bill system?—That is correct.

7694. Therefore the cash credit system corresponds to the open account system?—Yes. In South Africa they did not induce the dealers to change their mind. At present under the Act which I have quoted there is this emergency currency in India which is actually the system under which bank notes or Government currency notes are issued on the security of hundis; at present of course the emergency currency is only given if the bank rate of the Imperial Bank is above 6 per cent.

7695. *Mr. Manu Subedar*: This is an emergency provision. As a result of the misunderstanding prevailing in the country people say that the emergency currency can only be given if the bank rate is at 6 per

cent?—According to the Indian Paper Currency Act of 1923 the Governor-General in Council may authorise the Controller of Currency to issue currency notes in all not exceeding 5 crores against bills of exchange and later on by an Amendment Act this amount was raised to 12 crores of rupees. Therefore there is a misunderstanding. I can also point out how all this misunderstanding arose. Sir Arthur McWatters' evidence before the Hilton Young Commission does not mention that the present rate of 6 per cent. can be changed by the Governor General in Council at any given moment.

7696. Would you then let me know whether you think when the Reserve Bank is established and when efforts are made to induce larger use of internal bills, the cash credit system would still continue to militate against it or do you think it will automatically adjust itself?—If there is a strong managing governor or governors, then it will be adjusted satisfactorily.

7697. In connection with the method which you use to create bills with regard to the electrical trade and the counter-case which you gave about Bombay in connection with the mills, the difficulty generally is that the wholesale merchant would not let his manufacturer know where he sells his goods. In Bombay cloth is sold through wholesale merchants and the wholesale merchants would never disclose to the mill to whom they are selling their goods. He would not mind drawing a bill and going to a banker as in your case where Bala Bux brought the bills to you. Probably he had confidence in you but in practice it would be very difficult?—Yes; dealers are frightened that their clients would be known by the manufacturer or by the first importer. After all this goes back to a general question. Well, I should say there are no secrets in life. After all I can know easily who the hardware or piece-goods merchants in Cawnpore or in Delhi are. If there is a skilful manager, he can say "I will know your secrets to-morrow". It is a question of personal impression, nothing else.

7698. You do not think it is an insurmountable difficulty?—No.

7699. *Dr. Hyder*: You said it was a normal feature practised among banks to take commercial paper for discounting with the Central Banks in Europe?—It is practically done in every bank and according to my personal experience often twice a day or even more.

7700. Will you explain to the Committee something about the rates at which this paper is discounted?—Is it the discount rate or the bank rate?—If you speak of the discounting business alone and you do not touch the private discount market, then I can safely say that the discount rate of the Reserve Banks in Europe has always been at the lowest. If you speak of the acceptance credit, I say it is a very complicated question. In the open market first class acceptances are always sold and bought at a rate which is always under the Bank of England rate.

7701. *Mr. Khaitan*: In criticising the Reserve Bank Bill you said that you did not agree with that portion of the Bill which laid down that a bill in order to be discounted by the Reserve Bank should bear at least two signatures. You gave some instances of transactions to show that there must be at least three signatures?—I say there should be three signatures.

7702. *Chairman*: There is a provision in the Statute. It will not exclude bills which have got more than two signatures?—For that matter it can have five signatures.

7703. You say there should be at least three signatures?—Yes.

7704. By which, I understand you to mean that the Bill should provide that there should be at least three signatures. Is that what you said? Do you want that the bill should itself provide that before it could be rediscounted by the reserve bank there should be at least three signatures?—Yes, and I would propose this when the Reserve Bank Bill would come up again. I would not start with acceptance credit in India and it is therefore that I give as a minimum three signatures. Acceptance credit will be impossible in the beginning. I also say that I would include a clause or subclause that for the beginning at any rate we should have in India three signatures and if the Banking Board would propose to Government that the time had come that acceptance credit could be introduced in India, this might be changed later on by the Assembly.

7705. *Mr. Khaitan*: I would give you some instances in which perhaps you may think that two signatures can be sufficient. Suppose there is a big firm of jute dealers which has got an office in Calcutta and also another office at Narayangunj. Let us take the biggest firm available in Calcutta. The Imperial Bank has also got an office at Calcutta and at Narayangunj. The firm buys jute at Narayangunj and draws three months bills on its Calcutta office, discounts it with the Narayangunj branch and those goods are intended for export. Now, the Imperial Bank and the firm have both got their offices at both these places. The bill has only two signatures and is of three months usance. Would you exclude a bill of that character from being rediscounted by the Imperial Bank?—This is really a case of accommodation.

7706. Not necessarily. It is discounted by the Imperial Bank. When it goes to the Imperial Bank for discounting it has two signatures—one of the company and the other of the bank?—This is only a twisted form of acceptance credit.

7707. It is not acceptance credit for this reason. It would be acceptance credit if the bank had accepted first and secondly it would be acceptance credit if the Imperial Bank in the beginning was unable or unwilling to advance from its own funds and wanted the bill to be rediscounted with the Reserve Bank or any other bank. Then it would be acceptance credit? —If I were the managing governor of the Imperial Bank and if you approached me I would not accept that. I would certainly be against it, though a number of people would say it was correct. That is why I want to have three signatures and I would adhere to that whenever any case for the Reserve Bank came up.

7708. Supposing there is a mill in Bombay which has got a shop in Muzzafarpore for the sale of goods and goods will be sold in the course of one or two months. The mill draws a bill on its Muzaffarpore shop, would you exclude that kind of bill if it has two signatures of the same firm?—I would not risk it considering that there have been failures of Reserve Banks. Exactly the same thing happened in South Africa. Even in Poland the Reserve Bank broke down twice although it was established under the auspices of the League of Nations. My humble opinion is that India's economic life can only be developed on very conservative business lines in the beginning. Increasing facilities can be given after the Reserve Bank has been in existence for 10 or 15 years when things begin to go well. Then the acceptance credit will also be introduced and two signatures will be quite enough.

7709. You said in answer to Mr. Manu Subedar that cash credits account to a certain extent does stand in the way of the development of the bill market?—Yes; to a certain extent it does.

7710. How would you substitute the cash credit account by bills?—I cannot give exact figures about the internal trade of India but the internal trade of India is so enormous in comparison with this note issue which will be done after the discounting and if after a few years the discounting business will work properly then all transactions of internal trade will furnish the banks and the Reserve Bank with such an amount of bills in about 5 or 10 years that there will always be so much business that they will be able to discount only the very best of them.

7711. *Mr. Khaitan*: In the first period of development of the bill market, would you not look towards more a natural evolution of things than towards a kind of revolution? About South Africa you said that business was done more upon a clean credit basis than upon a bill basis. That is also our difficulty in India. The wholesale agent or the commission agent in Calcutta, for example, sends goods out to his customer in the mofussil on an open account basis. He does not draw a hundi and naturally therefore, there is no hundi which that customer would accept. Do you not think that before that kind of bill is brought into existence many more years may have to elapse than would be taken in making it understood by the bank and his customer and bringing into existence bills which could more easily come about in the manner I have explained to you?—Such credits are given to finance the incoming trade on the basis of discounting of bills as I have described it. If you buy jute from a ryot, the ryot sells it, then another merchant sells it and in this way I do not think so many bills will be created.

7712. Would you kindly think over and, if you change your opinion by to-morrow, let us know?—Yes. in any case there are at present no discounting facilities in India. And you may take it that there are no bills. Now all the credit needs of the country are financed without re-discount facilities simply by deposits. These deposits will become free if the transactions which you mention were to take place. Then banks can discount and re-discount bills with the Reserve Bank, where there are only two signatures. If the firm is a reliable one, even one signature would be enough.

7713. He might have securities?—Even if he has no securities, if the agent or manager of the bank knows the man and is sure of the money, credit will be given without a draft or acceptance from the deposits of the bank, because they may not like to discount such bills.

7714. You are thinking of issuing notes, but the Reserve Bank would not have always to issue fresh currency; it will have other funds also.—It will have deposits, but the Reserve Bank shall only discount those bills which are considered strong by everybody. The bank manager can give any amount of credit on current accounts, but I would not like that such cases should come before the Scrutinising Board during the first five years, because the Scrutinising Board should not judge on the security of a single man. These men of the Board are after all human beings and they will have to pass sentence against one man. The bank is another question; if a bank does not give credit to two firms together, it need not express an opinion as to which firm it finds weaker. It throws back a bill which is only signed by one merchant, for the reason that one man is always less than two men. In Europe I have seen the greatest men failing.

7715. My difficulty is that you are thinking only of unsecured debts?—The Scrutinising Board has nothing to do with the securities which the bank has. The Indian joint stock bank which sends its bills to be rediscounted to the Reserve Bank would come before the Scrutinising Board. I know of the procedure adopted by the Scrutinising Board in all the towns in Central Europe. But I would like that the banks should in the first five years, even if no new notes are issued give this credit out of their deposits based only on security.

7716. *Mr. Khaitan*: The other point I would like to ask you is about the question of stress mentioned by you, referring to the Hilton Young Commission's Report. Do you think the conclusions might have been based on the experience of the Currency Commission on the state of affairs that existed then? In England, as you know, the Bank of England keeps its rate rather high in comparison to the open market rate?—Yes.

7717. Therefore, do you think the Hilton Young Commission have been influenced by the state of affairs in England as also the state of affairs in India and is the continental system in your opinion better and more applicable to Indian conditions?—It is much simpler and better suited to the conditions in India.

7718. Would you recommend that the rediscounting rate of the reserve bank should be lower than the rate at which the Imperial Bank gives loans on the security of Government promissory notes?—Do you mean the Imperial Bank or the Reserve Bank.

At the present moment all loans given by the banks to their customers bear a certain relation to what is called a bank rate?—Yes, the advance rate. The present Imperial Bank rate is a bogus bank rate in comparison with the rate of Reserve Banks.

7719. I put it to you that it is so real that all loan transactions are based on the bank rate?—I agree.

7720. You will make the discount rate lower than the advance rate?—Yes.

7721. In order to create this rediscount market, at least in the beginning for some years, your view is that some inducement should be given to enable the banks to get rid of their shyness?—Yes, to merchants too.

7722. *Sir Purshotamdas Thakurdas*: Your first suggestion is that the bills which are rediscounted with the Reserve Bank should have three signatures including the signature of the discounting bank?—Yes.

7723. I take it you have seen the hundis which are in vogue at present. There are generally more than two signatures on it?—Yes.

7724. The present system of hundis will not be affected by your suggestion?—No.

7725. Your criticism, therefore, is based on what was done in the Reserve Bank Bill but it does not clash with the present system and the custom of the bills as they are known to be?—That is so.

7726. Apart from the exceptional cases which may be dealt with on its own merits, as far as the present custom is concerned, your suggestion does not clash with it and in fact all the present bills which are discounted would be liable to be rediscounted by the Reserve Bank?—Yes.

7727. You said that some Government officials told you that a bill market could not be created as there would not be enough bills to be rediscounted by the Reserve Bank?—Also Indian managers of banks have told me so.

7728. I wonder if you have thought over this question. I take it you know the method in which import business is financed. Bills are generally drawn in sterling and made payable in London?—They are often paid in Calcutta.

7729. What is the bulk of import business financed in Calcutta like?—I am afraid I cannot quote percentages but my feeling is that bills for all these goods which come in are usually D. A. bills which are sterling bills and have to be paid for after 60 days.

7730. Most of the import finance is by sterling bills drawn for 60 days payable in Calcutta?—Yes.

7731. If they were rupee bills, they would be available for rediscounting here in the market?—(No answer).

Mr. Lamond: Not according to the last Reserve Bank Bill.

7732. *Sir Purshotamdas Thakurdas*: What I say is if the import business of India was done by bills drawn in rupees for 60 or 90 days sight as the case may be and those bills are accepted by the person on whom they are drawn, they could be discounted by the banks holding those bills in the market?—Yes.

7733. You have given us your valuable experience of this business in other countries of the world. How is it your attention has not been drawn to this handicap which exists in India? India has enormous export business. It is all done in sterling and bills are not available for discounting and rediscounting in India. Is there a parallel between India and other countries in this connection. I suggest to you there is no parallel at all?—I am not quite sure about that.

7734. In what currency is a bill drawn on an importing country?—Before the war it was drawn usually in the foreign currency but now there is no such rule.

7735. I point out that there is a striking difference between the countries of which you give instances especially in regard to the import trade of India. I would like to be instructed by you as to why this difference should continue because you have not said a word about it in your most valuable memorandum which you have presented to us. May I ask you whether these bills could then be discounted by the Reserve Bank?

7736. *Chairman*: Take the case of Hungary. When an Hungarian importer imports goods from Switzerland are the bills drawn in the Hungarian currency?—At the time when competition was not keen they were usually drawn by the manufacturer in Switzerland in his currency but as competition is very keen now the Hungarian importer will buy goods only if drawn in the Hungarian currency itself.

7737. Will not that state of affairs hold good also in the case of imports into India? There is much competition now in the world's market. Therefore should not India be justified in demanding that her import bills should be in rupees?—The man who buys goods can always force the manufacturer to put it in rupees.

Sir Purshotamdas Thakurdas: You have been telling us what is good for the next generation and in your opinion the ideal thing which you would recommend to the Government of India and which you would suggest to this Committee would be that the import bills in very large numbers should be available in this country in the same manner as in other big countries of Europe instead of the bills being tied up by the banks?—That is so.

7738. If you are a bank manager and you hold millions of pounds of these bills which mature during the next two or three months you cannot utilise those bills. Is not that a great handicap?—Yes.

7739. Why has not your attention been drawn to that handicap and to the removal of that handicap?—I have not thought about it yet, but I do say that at least in the beginning this difficulty will have to be faced. As time goes on and the Reserve Bank is able to function properly, the Reserve Bank will be able to rediscount such rupee bills.

7740. *Mr. Rushforth*: In your own business you import large quantities of electrical material. What prevents you from drawing those bills in rupees?—For our own stock we have no bills. Our firm cannot be taken as an example because it is only a branch and we get money on current account from our Home Works.

7741. *Chairman*: Take the example of a firm of piece-goods merchants?—If they buy piece-goods from Italy, for instance, what would happen would be that the piece-goods merchant could force the Italian manufacturer to draw the bills in rupees.

7742. How do other countries in the West do it?—In other countries a bill which bears one signature will not come to the Reserve Bank because after all the Scrutinising Board should judge the respectability of one firm.

7743. *Mr. Manu Subedar*: What is the practice in Germany?—They do not go in to the Reserve Bank.

7744. *Chairman*: What about the United States?—I do not know exactly about the United States. As a matter of fact I ought to have thought about it, but I have had no time so far. I have been here only 3½ years. I did not see these things at all; so it did not come to my notice.

7525. *Sir Purshotamdas Thakurdas*: You therefore think that it should be a very useful avenue for you to examine the utilisation of the import bills of India for the development of the bill market here?—Yes.

7746. I would like to ask you another question. You said that before the War every country drew on the country to which it exported in its own currency?—That was usually the case.

7747. The conditions now may have changed owing to the manufactured articles being in a certain state of depression. Can you tell us of any country which has both export and import business in currency other than its own?—No.

7748. That is a very peculiar feature in the economic life of India?—Yes.

7749. What can be done to cure this handicap in India?—Now is the best time to cure it because the foreign manufacturers are so keen on selling goods to Indian merchants.

7750. So you think that that needs to be remedied?—In future it is natural that the Indian dealer when he imports goods will try his utmost to get bills in rupees.

7751. So you recommend him to try and press for bills to be drawn upon him in rupees?—Yes.

7752. I like this to go on record that you are definitely of the opinion that when India imports goods, she should try to import only in rupee currency and in no other currency in order to develop her own bill market.

7753. You read out to the Committee some extracts from Mr. Nicoll's evidence before the Hilton-Young Commission where he complains that in India there are accommodation bills and genuine bills. Now in your study of the economic conditions in the various parts of India, has it struck you that what are called accommodation bills may be genuine trade bills?—I do not think so. My Hungarian friends are also trying to manufacture those bills because they want to get more money.

7754. *Sir Purshotamdas Thakurdas*: The discounting of trade bills is being replaced by cash credits in India?—It is so.

7755. Therefore those who do not command cash credits take to accommodation bills?—Naturally.

7756. Would it be a fair conclusion to make that if genuine trade bills were encouraged, the accommodation bills would disappear?—No, I do not think so. There would be lots of merchants wanting more money.

7757. Would anybody discount accommodation bills if genuine trade bills were in vogue?—I have heard this question discussed for ten years in Europe. How can you discriminate whether it is a *bona fide* bill or otherwise?

7758. Supposing you are a manager and I brought a bill and asked you to discount it, you would at once ask me why this bill is drawn. Would you not?—Yes.

7759. To-day, no bank manager asks that. All that happens is that a bank manager has a list showing the worth of the several persons or firms. As soon as you present a bill, he refers to this list and knowing the worth of the man or firm, he discounts the bill. Has this been brought to your notice?—How can a man who manufactures this kind of bogus bills get them discounted?

7760. I do not agree with you that there are any bogus bills worth the name in any respectable bank. I strongly dissent from that. My experience is that only third class banks have bogus bills.—I beg to express my opinion that the greatest banks in Europe have bogus bills from the greatest industrial undertakings.

7761. We are discussing Indian conditions, here in India first class banks would have comparatively few accommodation bills under average management—It would perhaps be wise to get a proper definition of what we really understand by accommodation bills.

7762. The accommodation bill is a bill which is going round because genuine trade bills are not in vogue. As soon as they become the fashion and become easily discountable, bogus bills will automatically disappear?—No.

7763. Do you say this from your acquaintance of Indian conditions or from your experience of European conditions?—From my knowledge of human beings, whether they are Hungarians or Indians or Australians.

7764. *Mr. Lamond*: An accommodation or finance bill would be a bill which would be drawn to provide capital between two people. A trade bill is for a series of transactions. You provide money by an accommodation or finance bill to provide block.—And by whom will the second signature be given?—He must also be a good merchant. Let us call the accommodation bill a non-*bona fide* bill.

7765. *Sir Purshotamdas Thakurdas*: As soon as you call it a non-*bona fide* bill, the question does not arise. As I told you, it would not be difficult to find out what is a *bona fide* bill.—It is impossible to find it out. I come to you and ask you to discount a bill for a lakh of rupees You ask me what I would do with a lakh of rupees. I say I want a building constructed. You would simply say, 'thank you, go away'?—Who has given the two signatures?

7766. What does it matter about the signatures? Suppose I am a cotton merchant, you may find out whether I have cotton and whether I want to sell it. I say I want to pay off my friend. That is an example of an accommodation bill. You would simply refuse to discount it and surely a bank manager has to make those preliminary enquiries?—If it comes before the cleverest Scrutinising Board, it would be impossible to find out whether it is a non-*bona fide* bill or an accommodation bill.

7767. Has your experience in Calcutta brought to your notice any such startling devices in the Indian financial market?—In my present position I have no connection with banking. My experience is based on talks with friends.

7768. It is a possibility which you are warning us against?—I am sure that Indians are just as clever as any other nation and they will find out which are bogus bills.

7769. Regarding the Reserve Bank Bill, you have studied the Legislative Assembly debates?—Yes.

7770. Do you find any difference in the conditions in India under which a Reserve Bank was sought to be established and the conditions in countries where Reserve Banks have been working? I suggest to you that the difference in the two is this: in the one case Government are responsible to the people, in the other, Government are not responsible to the people?—The political situation in India is absolutely different.

7771. It was in 1928. I put it to you that the difficulty was the difference in the constitution governing the people of the country to which you refer and the constitution governing the people of India?—It was merely a political question.

7772. They were trying to make sure from the top that the control was as undiluted as in the countries of Europe?—That is natural.

7773. *Chairman*: I wish to pursue the question about export bills. Take Germany. When Germany exports goods to England, in what currency are the bills drawn?—The pound is still strong in the mind of the people; and it is the international currency nowadays.

7774. What used to happen before the War?—The rates in the bill market in London were so much cheaper that the international business was transacted in pounds. I cannot say I have such a knowledge about it that I could formulate an opinion.

7775. You have already agreed that at any rate in the case of the import bills the Indian importer would be justified in demanding rupee bills?—Under present conditions.

7776. Now about two signatures and three signatures. Will you kindly refer to section 17 (2) (*a*) of the Reserve Bank Bill? Have you noticed that there are the words 'promissory notes'. In promissory notes there are always two signatures; there would not be three signatures?—Yes.

7777. Talking of import bills to which Sir Purshotamdas referred, would not the provision as it stands cover an import bill, because the import bill will be drawn on a dealer in India with his one signature and accepted by a bank in India. Therefore without any change in the form of the Reserve Bank Bill, as it stands, a document of that sort would come within the purview of the Reserve Bank Bill?—Yes, we are not concerned with the foreign signature. I am simply concerned with the provisions of the Reserve Bank Bill. Therefore even in the form in which it stands, it has got its advantages. Where more than two signatures are required, they can be insisted upon.—The bill says 'drawn and payable in India.' The other would have been drawn in Switzerland. Whether the bill is drawn by the Swiss or Italian manufacturer, it could not be discounted under this paragraph.

7778. *Chairman*: But in the case of Indian promissory notes that difficulty would not arise. You cannot insist on three signatures to it?—

Mr. Manu Subedar: The third man may be acceptor.

Witness: There can be an endorsement.

7779. *Chairman*: But there will only be two signatures?—The whole question has to be considered from the following point, that I am more conservative in these matters because I come from a country where people are most conservative in their ways and dealings.

7780. The only other point that I have to ask you about is the Central Banking Board to which you have referred. We have not yet known what its constitution should be?—I do not know whether you will be interested in this pamphlet "Economic Bulletin of the Central Banking Corporation of Hungary". I think that will give you some information on the subject. It is a nicely edited pamphlet in English.

I simply wanted to know what your views are as regards that Board which you suggest and how it will function? Any way I shall not pursue this question to-day but shall deal with the same to-morrow.

TWENTY-SIXTH DAY.

Thursday, the 25th September 1930.

PRESENT.

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E., (*Chairman*)
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E., (*Vice-Chairman*).

Mr. D. P. KHAITAN.
Mr. F. V. RUSHFORTH.
Mr. MANU SUBEDAR.
Dr. L. K. HYDER.
Mr. W. LAMOND.
Lala HARKISHEN LAL.
Mr. R. W. BUCKLEY.
Mr. JADU NATH ROY.
Mr. NALINI RANJAN SARKAR.
Seth HAJI ABDOOLA HAROON.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

The examination of DR. NEMENYI, was continued.

7781. *Chairman*: When we closed yesterday we were on your suggestion of the Central Banking Board. Could you now tell us what your ideas on that subject are, giving us the main outlines?—The establishment of a permanent authority is necessary and this should be done as soon as possible after your Committee have reported to the Government of India in order to tackle all the banking problems of this country. This Board should be connected with similar kinds of Boards which the Government of India have already established, such as the Agricultural Board, the Industrial Board or the Insurance Board. It should perhaps be a kind of Central Economic Board similar to the one suggested by Sir George Schuster in his speech before the Finance Secretaries of the Provincial Governments. You have at present in India a Geological survey, an Archæological survey, a Zoological survey and so on, but there is not yet a permanent Board for the study of Indian Banking. I would say that there should be two sections of this Board, one the executive Department and the other Scientific or the Research Department. Let us now deal with the Research Department. This would be going on surveying the banking problems of the country just as it has been done by the Provincial Banking Committees and is now being done by the Central Committee and it will also keep in touch with the other Boards having a reference with banking questions, and it would also, in consultation with the executive department, be drafting all the Bills in connection with the future banking legislation and would be putting forward new suggestions regarding the development of Indian Banking for instance types of uniform hundis and likewise we should also have a uniform type of the system of land tenure and agricultural credit.

7782. *Chairman*: How would you include this under the banking problem? My opinion is that they all go together. As a matter of fact, several Provincial Banking Committees have dealt with this matter and I have found in provinces like the United Provinces there are two or three different systems of land tenure in the same province. My view is

that it should not be so. Now, to resume my point, the executive side of this Board would be a Government department which would deal with licensing of new banks and other matters. The present system of bank audit is not very sound. In any case this executive board will have to send its auditors. This executive banking board will have to decide the liquidation of banks and also if possible foster the amalgamation of banks. It will have to be in constant personal touch with the Reserve Bank giving suggestions in regard to the management in a private way and rendering every help to banks in times of stress in co-operation with the future Reserve Bank.

7783. Then on the executive side am I right in assuming that your ideas of development are almost the same as those given in Mr. Thakore's book?—I have read several other books also on the subject. Of course, Thakore's ideas are almost the same.

7784. When the Reserve Bank is established do you not envisage that some of the functions of the Central Banking Board will pass over to the Reserve Bank?—That is a subject which will have to be dealt with later on.

7785. *Mr. Manu Subedar*: Are you aware that there is at present the Commerce Department of the Government of India at the head of which there is an able civilian assisted by other civilians who are working as Secretaries, Deputy and Assistant Secretaries and so on?—Yes.

7786. The Commerce Member, you are aware, has also got the assistance of a permanent Committee of the Assembly for such matters relating to subjects like railway rates, commercial legislation, company law, ports, freights, questions of shipping, insurance and many other subjects, which he may like to refer to them for their opinion, although he is not obliged to abide by their recommendations. Do you consider that arrangement satisfactory?—No.

7787. *Chairman*: It does not really cover the field which you want to cover. Please do not confuse the issues. There is the Central Economic Board which will be connected with a Central Banking Board and Agricultural Board and then you may have Boards of Industries and Commerce and so on. We need not pursue the latter idea regarding items other than banking. As I followed your statement, I found that your ideas almost exactly resembled the views expressed by Mr. Thakore in his book. An institution like that must be under the control of the Finance Member and the Finance Department of the Government of India.—What I beg to state is that the banking constitution and all other work connected therewith are usually carried out under the Commerce Department in almost all other countries in the west.

7788. *Mr. Manu Subedar*: With regard to the executive side of the Board you said that it should work under one of the Departments of Government?—Yes

7789. That means this Board will be purely a deliberative body or rather an Advisory body. You know there are several other bodies in this country whose advice is asked for, but not always accepted by Government?—

7790. *Chairman*: It must be left to Government to decide finally what action they should take on the recommendation of these boards. This is

obvious. I do not see much use in pursuing this question. A Board like this will have only advisory functions and for that reason must be under the control of a particular department of Government.—I again wish to emphasise that everything will depend on the personality of the members who constitute the Board or its President. They can carry out their ideas if they are capable. As for that matter, the Directors of the Geological and Archæological surveys can do whatever they like in their own departments as they are the sole controlling and guiding authorities in their respective departments.

7791. May I say, if you think that the heads of the Archæological or the Geological surveys can do what they like, you are entirely mistaken. You are under a misapprehension and all that I can tell you from my own personal experience is that it is the Member in charge of Government in that particular department who is responsible.

7792. Did I understand you correctly to mean that you were opposed to the idea of acceptance credit?—Certainly, in India there can be acceptance credit but the Reserve Bank should not discount these acceptance bills.

7793. You know that the Federal Reserve Bank of the United States does discount acceptance credit?—Yes. I have said that after 3 or 5 years it can be considered whether it is applicable to conditions in India but not when banking is still in its infancy, as I see grave danger in the beginning; there are a number of banks which though very weak will be members of the Reserve Bank. I want to be very cautious about the Reserve Bank in the beginning.

7794. You know there is a safeguard provided under the American system under which the danger to which you refer will have been secured against?—May I point out, Sir, that if you have in view a Scrutinising Board they have such an immense lot of work that they cannot be expected to find out the origin of the bill which has been drawn on a bank. That would mean that you will have to have an immense organisation like the C. I. D. to find out such things.

7795. If the federal board is not satisfied, obviously they will not agree to the document being rediscounted?—Yes.

7796. *Mr. Manu Subedar*: I find from the particulars of the National Bank, Hungary, that the post office saving bank accounts are all dealt with by the Reserve Bank and they form one of the operations?—But this is all Government money.

7797. In India the postal savings bank department is run independently by the Postal Department and the financial receipts are merged with the general cash balances of the country and there has been a question raised recently whether Government should provide any reserve against this form of liability. When the Reserve Bank is established, what would be your view with regard to the operations of the savings bank department?

7798. *Chairman*: Mr. Manu Subedar, I have never heard a question raised about reserves against postal savings bank deposits. You are obviously referring to cash certificates.

(Witness) What are the reserves against a treasury bill or note of the Government of India loans?

7799. *Mr. Manu Subedar*: The question is whether you would allow the benefit of the savings bank deposits to go to the Reserve Bank and strengthen the reserve position of the country in the international market or whether you would allow these receipts in a particular account with the bank, namely the Government account?—Yes: I would like to allow them to go into the general revenues.

7800. Do you advocate that the whole business of the savings bank should be handed over by Government to the Reserve Bank and not be kept away from it?—In our country it is all mixed up. I do not see any great importance of the question, that is, if you have a reliable Government, the question does not arise.

7801. The receipts of the savings banks and the certificates at present swell Government balances and are used by Government for their own purposes; they are not useful for trade or industry; it is a diversion of finance which would otherwise go to trade and industry. This is the general feeling. What is your view about it?—If these receipts will go to the Reserve Bank, then they will immediately come to the country in the form of credits to strengthen the funds of the economic life. It is certainly better for the country if they come out to be used for trade and industry.

7802. There is the complaint that the Government of India raise too much money out of the money market and that very little of that money comes to the industrial development of the countries?—Yes.

7803. Therefore, you would advocate that the Reserve Bank should handle the savings bank deposits like other countries?—Yes.

7804. *Chairman*: In other countries savings bank deposits are handled as part of the Government balances?—In India the whole revenue goes up to Simla and is not available to be employed for the benefit of trade and industry in the country.

7805. These postal savings bank certificates go into the post offices they are drawn into the treasury and then they go into the Imperial Bank; later on they will go to the Reserve Bank; therefore they will be automatically available for financing the trade or commerce of the country. Is that position not the same as in Hungary?—No: not quite.

7806. You said that the money went up to Simla. The money does not go to Simla. From each post office the money goes to the nearest treasury; from there it goes to the Imperial Bank which under the scheme you are envisaging will become the agents of the Reserve Bank. Therefore the money will pass to the Reserve Bank as part of the resources of Government?—The Government can always use it for any purpose it wants.

I think we had better stop there.

I withdraw my suggestions (see page 19 of my statement of evidence) that the Indian joint stock banks should try to go in for all these business lines, which are transacted by the continental banks. The Indian joint stock banks are not sufficiently strong to meet such an extension of their business, with the exception of foreign exchange business, which they should take up gradually. Perhaps some co-operation with "Managing Agents" for selling shares and debentures will also be possible. I have to withdraw the statements which I made previously because they are in opposition with my newly acquired Indian experience. Throughout my memorandum I suggest that no new banks should be created. I have to

point out a question of the utmost importance regarding the exchange business which should be done by Indian joint stock banks. One of my chief ideas was whether one or two big Indian joint stock banks could not take up exchange business. Then I was told that it was nearly impossible. My suggestion was the following. I have spoken to some of the big Indian firms and told them "if you could give exchange business to these Indian banks, why could not the Indian banks develop the foreign business department by which they would secure both sides of the exchange business namely imports as well as exports. It is only then that they will be able to make profits like the present exchange banks". If the Indian merchant will insist when importing goods from Europe that the bills of lading or invoices should be sent through Indian joint stock banks which have started exchange business, then India will have both the sides of the business. I maintain that if the indigenous joint stock banks started foreign business department, it would not matter even if they did not make any profits during the first year or two. To support my views against the establishment of a new Indian exchange bank I shall read out to you what has been written in the "Commerce" for the month of July 1930.

I will now read out what appeared in the "Commerce" of July 12, 1930:—

"As the reader is aware, Bombay proposes to establish a Swadeshi Exchange Bank with the object of developing both the export and import trade; and branches of it will, it is said, be established not only at important centres in this country, but also in other parts of the world wherever India has commercial interests with the view of giving every facility to the Indian merchants abroad. The capital of Rs. 5 crores, at least, twenty per cent. of which will be called up, will be raised from the principal commercial bodies in the city of Bombay and not from the general public. Apart from any question of the inadequacy of capital and the ability of the promoters to rear up a well-organised exchange bank within a short time, is it possible for such an institution to work in splendid isolation? If the promoters mean business and are desirous of making a success of it, they will, much against their inclination no doubt, have to depend upon the co-operation and goodwill of similar foreign institutions. Operating on the London discount market will not be the least important function the bank will have to perform. Now, to command credit on the London discount market, as a correspondent points out in the *Indian Daily Mail* of Bombay, a paid-up capital of one crore of rupees will hardly make an impression. Even double this amount might scarcely suffice. The arguments put forward by the correspondent are so cogent that we make no apology for quoting him extensively. The correspondent writes:—

"A Bank of this nature, to be eminently successful, must have formidable floating resources, and it is scarcely conceivable that in these times of political strife and turmoil, when the most careful of business calculations are apt to be upset, the bank would, in the near future, be in a position to boast of a huge working capital. The latter could be built up in times of tranquillity and business level-headedness. These are times when business conditions are left to take care of themselves whilst business men turn themselves into politicians and divert their energies towards the attainment of ephemeral political emancipation. The bank, again, is to have branches not only in this country, but also in important

parts of the world. In this also the promoters will be faced with real practical difficulties. A branch in London alone should give them some food for thought. What is it going to cost if you want to run and maintain it on the right lines? Besides, it is more than probable that for at least the first two or three years this branch, as well as others to be established in foreign countries, will not be paying, and it will have to look up to the head office for support. And what about the staff to work all these foreign branches? To work them successfully you must have men who have been in the line for a number of years, and do possess some knowledge of international exchange. How many in India are there this day to take over charge of foreign branches of a bank straightway and run them successfully? I shall go a step further. I wonder if there are very many Indians today who can claim to be fit enough to be at the helm of a fair-sized exchange banking institution and steer it clear through troublous waters in this very country. The talk of boycotting exchange banks sounds very well, but strikes one as a case of the wish being father to the thought. Supposing the shoe manages to get on the other leg, and instead of our boycotting the exchange banks the latter decide to boycott the Swadeshi Exchange Bank? What then? It should be transparent even to a mediocre intellect that in that case the Swadeshi Exchange Bank must go to the wall. Leaving even this question of co-operation or non-co-operation aside, what is the guarantee that the present sentiment of the people in favour of Swadeshi is going to last long enough to enable the Swadeshi Exchange Bank to attain a stage of prosperity and unshakable solidarity? If it is only the mass psychology that is to be counted upon for the success of the new bank with little fear of contradiction I might state that it is an illusory factor at best to explore. Institutions started in the past under similar auspices have been brought to life and buried without a decent funeral. In every case it has been the gullible public who have burnt their fingers. Let there not be a similar repetition in this case, for, should anything happen to the Swadeshi Exchange Bank, apart from every-thing else, Indian banking would receive a setback which it would be difficult to recover from."

Therefore, I have suggested that it would be an unsound idea to start Indian exchange banks. The first thing would be to start foreign exchange departments in the existing banks. It would not matter if they did not make any profits during the first year or two. I believe that it is very dangerous for the future of Indian banking to start with an Indian exchange bank and as I have already said I am dead against big new banks.

7807. *Chairman*: From the memorandum which you first sent to us I understand your idea to be that other joint stock banks should have certain departments more or less like the continental system which has a separate department to deal with foreign exchange, a separate department to deal with agricultural credit, a separate department which you call the mortgage department to deal with small and middle-sized industries. My point is to what extent would you modify those ideas? So far as I have been able to understand, you still hold that joint stock banks should have a foreign exchange department. As regards the agricultural credit department, if you had not modified your ideas I would have said that it was impossible. As regards the mortgage department, is it your present idea that a joint stock bank should not under any circumstances give long term advances to these small-sized and middle-sized industries?—They should not do that work.

7808. And if they are doing that work already, will you take it away from them?—I do not say that legislation should prohibit that. If an existing joint stock bank is capable of doing such work, it should be allowed to continue to do so. It should not be prevented from doing it.

7809. I was rather interested to listen to your views about the *swadeshi* exchange bank, but so far no such proposition has been placed before us. All the propositions placed before us are in the direction of developing the foreign exchange activities of the existing Indian joint stock banks?—That is my point too.

7810. In the forefront of these banks stands the Imperial Bank which I would prefer to call a *Swadeshi* Bank although it does employ at the present moment a certain number of non-Indian staff, whose number is now diminishing, yet in essence it is an Indian joint stock bank. If it is possible for that bank, after the Reserve Bank has come into existence, to take up foreign exchange business, will that be in accordance with your ideas?—I am very much against the idea. It is not desirable to allow the Imperial Bank to take up that work because the Imperial Bank will still be the strongest bank in the country. It will command lots of deposits and the Indian joint stock banks as a result will never be in a position to develop their foreign exchange business.

7811. *Chairman*: The whole point is how India is going to develop foreign exchange business through her own banks. I say that the Imperial Bank is an Indian joint stock bank and it is going to be that *Swadeshi* foreign exchange bank about which you talked so much a little while ago. The difference is that we are not going to start a new bank, but we are going to allow one of the existing Indian joint stock banks, after the Reserve Bank has come into existence, to take up foreign exchange business, and so far as my recollection goes, that was indeed contemplated in the Reserve Bank Bill.—It would not prevent the other Indian banks from doing the same work?

7812. *Dr. Hyder*: In your memorandum you say that the Indian joint-stock banks should take up this work. Now you resile from that position and say that the Imperial Bank which is one of the strongest of such banks cannot take it up because it will have free balances.—Not only that, it is a big bank which will have more deposits than any other bank.

7813. *Chairman*: But still it is an Indian joint-stock bank. If the national feeling in the country is such that the Indian joint-stock banks should take a greater share in foreign exchange business, what would be your objection?—May I assume, for theory's sake and for the sake of developing my arguments, that India will have absolutely its own swaraj and there will not be a single foreigner in the country?

7814. I am not on that track at all. I say and I am not ashamed to say national feeling in the country is such that the Indian joint-stock banks should take a greater share in foreign exchange business, what would be your objection?—May I assume, for theory's sake and for the sake of developing my arguments, that India will have absolutely its own *swaraj* and there will not be a single foreigner in the country?

7814(*a*). I am not on that track at all. I say and I am not ashamed to say that I certainly think that for years to come India will be able to progress on her path of development with the assistance of eminent Englishmen. I have put to you a concrete proposition. You in your memorandum are in favour of the idea that Indian joint stock banks should take over foreign exchange business. I put it to you that here is the strongest Indian joint stock bank. The present difficulty is that it

is a bankers' bank. As soon as that position is withdrawn and as soon as the Reserve Bank is established, why should not the Imperial Bank be allowed to take up foreign exchange business? The Reserve Bank Bill at least contemplated that that particular restriction on the business of the Imperial Bank would be removed—If you would allow me to quote a theoretical and practical example in the history of British banking:

> "The concentration movement in England—which led to the emerging of the Big Five—brought about the opinion that a money trust might be established. To discuss this problem the Treasury Committee on Banking Amalgamation was appointed by the Chancellor of the Exchequer in March 1928.
>
> The report of the Committee states that against 'the possible dangers.....some measure of Government control is essential.'
>
> The bill which was brought forward on the basis of this recommendation was withdrawn as the banks have entered into an agreement with the Government that no further amalgamation will be made without the consent of the Treasury."

In England, where banking is very strong and where every single unit of economic life is highly developed, if there arises a crisis the British economic life would be so frightened that if a new amalgamation comes, there would only be one bank which would become very powerful and there would be no competition between banks. Even if the Imperial Bank were to become entirely independent and there were not a single non-Indian on it, I consider it an enormous danger that there should be established one huge bank, the result of which would be that all the other small banks which are struggling for their lives would never be able to develop business.

7815. *Dr. Hyder*: You are confusing issues. In England it refers to the amalgamation of independent units. Here it is integration of functions. Do you admit the difference?—There is a difference; the example stands on different lines.

7816. It is not the creation of a money trust?—If the Imperial Bank in future is to be entrusted to do every kind of business, there will only be a single Indian bank in India.

7817. There is no legal disability imposed on other joint stock banks to take on as many functions as they can?—But they would never be able to develop their business if one huge, strong bank were to do practically every business.

7818. I go back to the original position. In your memorandum you say that there should be an integration of functions, that is to say that one bank should have as many functions as possible?—That was my Continental experience.

7819. Now you resile from that position and say that you do not advocate the integration of functions, because you feel that in the conditions of this country there is no need for one strong bank?—Yes.

7820. I do not know the circumstances of your country, but here are the names of certain banks in Germany and may I ask you how their capital position compares with the capital position of the Imperial Bank of India or the Central Bank of India? These banks which I am referring to, are not the creations of to-day: The A. Schaaffhausen'scher Bankverein of Cologne. At the time when this bank started business, *viz.*, in 1848, did it occupy the position which the Imperial Bank of India at present occupies?—No, it was a local bank.

7821. If this bank in 1848 could carry on various functions, what makes you think that the Imperial Bank is not strong enough? The other banks are:

The Darmstädter Bank,
The Berliner Handelsgesellschaft of Berlin,
The Discontogesellschaft of Berlin,
The Mitteldeutsche Creditbank of Meiningen,
The Allgemeine Deutsche Creditanstalt of Leipzig,
The Vereinsbank and Norddeutsche Bank of Hamburg, and
The Schlesische Bankverein of Breslau.

You know that these banks were not as strong as the Imperial Bank of India or the Central Bank of India or the Punjab National Bank is, but at the time they started, they performed various functions. What makes you think that the position of our joint stock banks is not strong enough to take on such functions?—If you read the history of German banking at that time, you would find that these banks were trying to develop their business on all possible lines and they were co-operating with the growing German industries and their development was very slow and gradual. The industries in Germany at that time were small.

Our industries are small—Take the Bombay cotton mill industry and the capital of the Bombay cotton millowners in comparison with the capital and reserve of the Indian joint stock banks in Bombay, and take the small industries in Germany at that time, *i.e.*, 1848, when some of the industries had only 15 workmen. There is a huge industry in India and there is not a single real Indian joint stock bank. How can you link up these big industries with these small joint stock banks?

7822. But my only fear is that in resiling from the position which you took up in your memorandum you may be making a still greater mistake. I gave you the names of the banks which do not exist at the present day—They have been amalgamated.

7823. Take the case of the Deutsche Bank which was started about 1870. Do you think that the position of the German industry and the position of the Deutsche Bank are not on a par with the position of the Imperial Bank and the position of the Indian industry?—That was a parallel movement and this would be a sudden change. That was an organic growth, organic relationship slowly developed, whereas in India the education and ideas of the banker are based on the ideas of British commercial banking. We have only small banks in India but there are big industries, and even in Bombay or Bengal there is no real Indian joint stock bank.

7824. *Chairman*: We are not concerned at the present moment with industries. You said that your objection to the Imperial Bank, even though it may be an Indian joint stock bank, being allowed to take up foreign exchange business is that it would swamp the other Indian joint stock banks as its resources are much greater. Even when it is shorn of the Government balances on the establishment of the Reserve Bank, it will still command the largest portion of the deposits which any Indian joint stock bank can command and therefore you are rather apprehensive as to what may happen to the contemplated activities of other Indian joint stock

banks in the realm of foreign exchange. If I have understood you correctly, that is your precise objection?—Yes.

7825. Do you think that, apart from the Imperial Bank, any Indian joint stock bank is in a position to carry on foreign exchange business successfully in competition with the foreign exchange banks on account of its being well-established and commanding large resources?—This refers again to import bills. If the Indian community will give its business to the foreign exchange departments of Indian joint stock banks, they can naturally be developed.

7826. It is a question of choice. There are two aspects. There is, firstly, a bank; it may be the Imperial Bank or it may be a foreign exchange bank. These institutions, on account of their long period of establishment, the large resources which they command and the confidence of the Indian public in them, are in a strong position. Even if rupee import bills could be started (and you admit there are difficulties in the way of starting them) the position in India being as it is, would not the bulk of the work go to foreign exchange banks if the Imperial Bank is debarred from embarking on foreign exchange business?—It will depend on the question whether Indians would give their business to Indian joint stock banks.

7827. But you yourself said that you were trying to compare the Imperial Bank with an Indian joint stock bank which was coming into existence much later than the Imperial Bank, that it is because of the long standing of the first bank that it has public confidence and that its resources are much greater than those of any of the smaller banks. If that is so, even when you have rupee bills, naturally the Indian public would have recourse to that bank in which they have the greatest confidence and if they find that the Imperial Bank is debarred from doing business, would they not have recourse to foreign exchange banks?—If I would go into this matter in detail, it would lead me to political questions.

7828. I do not want any discussion on the political question. Your anxiety was that Indian joint stock banks should develop their foreign exchange business. There may be a certain amount of political element in it, but I am not going to argue the political aspect of the case. My sole point is why the Indian joint stock bank should not be allowed to take over the foreign exchange business as was indeed contemplated in the Bill referred to? Why should not that idea be pursued so that India may have at least one joint stock bank which at the present moment possesses resources large enough to enable it to compete on even terms with foreign exchange banks? What would happen to Indian joint stock banks is, to my mind, a subsidiary question. They can stand on their own legs, attract more confidence and develop their foreign exchange business. As it is, I know that two Indian joint stock banks have started foreign exchange business, but why should the strongest Indian joint stock bank be debarred from taking part in foreign exchange business?—I am always against artificial State aid. The Imperial Bank, by the 1920 Act, became the strongest institution in the country. Even if this Act is changed, it would still be the strongest institution. It would lead to that banking monopoly about which the British economic world was so much frightened in 1918. There would only be one bank in India and no other bank.

7829. *Sir Purshotamdas Thakurdas*: Is it your intention that after the Reserve Bank comes into existence, even though the Imperial Bank may

not have Government balances in the same way as it has to-day, there should be a bar imposed on it by Government through legislation that it shall not do exchange business?—Yes.

7830. It would be, if I may say so, absurd and it cannot be done. Has it ever been done in any country? The Imperial Bank belongs to the shareholders, Government withdraw the support which they have so far given. By what measure of equity can Government or the Legislature impose a bar on it? If anything more was proposed to be given to the Imperial Bank by the last Bill of 1927-28, it was for the purpose of certain services which that Bank was asked to do. But how can the Legislature or Government or anybody who understands finance put on a private institution a prohibition that it shall not deal in exchange business?—The Imperial Bank would even then be not a private institution, because it will also have to do the Treasury business for Government.

7831. It may do it or it may not do. The Imperial Bank is an entity owned by the shareholders and I would like you to consider how in equity you would justify any interference by Government?—To explain that, I would go further with my suggestions. In connection with agricultural and industrial banking, I have my scheme that, as the Imperial Bank is at present the biggest bank, State aid to industries and agriculture should be administered by the Imperial Bank. The Imperial Bank will thus make large profits.

7832. Therefore your idea is that in order to prevent the Imperial Bank from doing exchange business, Government should give it a *quid pro quo* in other directions?—Not that.

7833. Supposing the Imperial Bank were not so employed?—As one of the greatest Indian merchants said, there is such an amount of goodwill in the Imperial Bank that this goodwill and their huge and reliable organisation of administration can be best used for the development of Indian industry and agriculture in the way of financing them.

7834. Therefore, your reply is that you would recommend the Imperial Bank being prevented from doing exchange business, because it will have to do some other business?—Yes.

7835. If all Government connection is to be cut away from the Imperial Bank, then you cannot prevent them from doing exchange business?—From a legal point of view, you are absolutely right; but why should such a huge institution throw away business and be a plain bank?

By asking the question which I did, I only wanted to clear up one or two implications in your reply. It does not mean that I approve of the Imperial Bank being asked to do it or not to do it.

7836. *Mr. Manu Subedar*: You know the present position of the exchange business in India, namely that it is entirely in the hands of foreign corporations established in this country?—Yes.

7837. You also know that one or two Indian joint stock banks have tried, or are trying to get into the exchange business; that is also your proposal and you consider that it is the proper thing to do?—Yes.

7838. I shall mention to you two or three difficulties which have been brought to our notice in the course of our discussions in the way of Indian joint stock banks doing this business. It is said that co-operation is lacking between the Indian joint stock banks and the foreign exchange banks and that the latter are making difficulties in the way of the former. In the

field of insurance and other branches, whenever an Indian concern is started, the combined competition of the foreign institutions becomes very deadly. I do not know if you are aware of the history of these ventures by Indians during the last 30 years in India and how every time most deadly and unfair competition has been offered against Indian institutions. I put it to you that if a *Swadeshi* bank came into existence, most deadly competition would be offered to it. Suppose there is an exchange market, it must go to the market to buy and sell. If people refused to sell to the *Swadeshi* bank or to buy from them, how would it operate?—In this connection, I have to refer to the history of the development of, what you call, foreign exchange business in India. In the old times there were only four or five banks, but to-day there are about 17. These old banks were surely not delighted to see the coming in of a Dutch bank and when the first Dutch bank was here, they were not delighted to see a second Dutch bank come in. Similarly, they were not delighted to see the first Japanese bank come in and when the first Japanese bank was here, they were not delighted to see a second Japanese bank come in. So if there are the Dutch, French and others competing in this market, there would not naturally be very much opposition against the Indian joint stock banks.

7839. I shall tell you other directions in which difficulties were placed in the way of the Indian joint stock banks. Suppose an Indian bank took export bills and sent them to London for collection and re-discounting. I am told that such bills emanating from an Indian bank and accepted by one of the big five banks in London were refused re-discounting facilities by the Bank of England?—There are big markets in America, Holland, Switzerland and everywhere in the world. It all depends on the standing a man can achieve for himself.

7840. An Indian joint stock bank which tries to do foreign exchange business and not having a branch in London has got to work through a London bank and in this way the commission which is payable on these bills becomes double and therefore it is not a practical proposition?—The Dutch and Japanese Banks have no branches in England but still they carry on business. I may further point out that the Dutch people have got their banks in this country and they came here when they had not their fellow-countrymen to rely upon for trade in this country and although there is very little trade with Holland these banks have been very successful.

7841. The Imperial Bank which is the most leading Indian bank in this country has greater resources and it has got a branch in London and several witnesses before us have considered that the Imperial Bank would be the only one bank which the exchange banks cannot rule out because the Imperial Bank will be able to hold its own against any competition?—I am writing a memorandum, and referring to the immense resources of the Imperial Bank, I am of opinion that their very good organisation should be utilised for development of Indian industry and agriculture, not in a dangerous way, but under proper Government control and leadership.

7842. That would mean that India would never be free from the exchange business?

7843. *Chairman*: You have got certain views but it is quite open for this Committee to decide which is the most important proposition. Supposing it considers that it is more important that the Imperial Bank should do exchange business by the grant of certain Government help, what do

you say to that proposition? You do not want the Imperial Bank to do foreign exchange business and you say that it would overshadow the other Indian joint stock banks, but in answer to the Deputy Chairman you said that you have other ideas about the Imperial Bank in connection with which it might receive Government subvention?—It may have other functions to do such as the development of industry. There is so much competition in foreign exchange business that it is not such a great business but if it had Government guarantee for the development of agriculture and industry it would be better from the shareholders' point of view.

7844. The Indian exporter does not necessarily have control on his bills?—I have discussed this question with Indian exporters in connection with the question of development of Indian exchange banking and this leads again to the question which has been pointed out by Sir Purshotamdas Thakurdas about import rupee bills. There is such a deal of competition between sellers that hundreds of foreign agents are forcing themselves upon Indian merchants and the latter can force the former to draw the bills in rupee on an Indian joint stock bank, and naturally the terms will be accepted. If you have rupee bills then it can easily be discounted in the Indian money market. Well then, that will again depend on whether these banks will be able to establish such a standing that they can command a good credit all over the world.

7845. At present a large proportion of Indian deposits are going to the various exchange banks and they are using the Indian deposits for their purpose. A suggestion has been put to us by several Indian witnesses that there should be a prohibition by law against foreign exchange banks obtaining deposits in this country as in other countries as that will add to the resources of the Indian institutions?—I cannot give any opinion on that.

7846. This is only an administrative measure by which the savings of India instead of going abroad can be utilised in this country. Every country does this for its own protection whenever it considers necessary and the assumption is that *prima facie* these deposits will go into Indian hands?—If the Indian banks will be of such a high standing then there will be no need for such legislation. I do not believe in legislation. I know of several instances where Rajahs and others are sending their money now to foreign countries. I am afraid some will also invest their money in gilt-edged securities. My view is that by artificial measures you cannot force people to choose their bankers.

7847. At present there are rupees 125 crores of deposits with Indian joint stock banks and Rs. 75 crores with the foreign exchange banks. The idea is that if the foreign exchange banks are prevented from taking deposits in this country, part of this 75 crores would go into Indian joint stock banks because if they are *prima facie* strong enough to attract Rs. 125 crores at present, they can very well take in Rs. 75 crores more?—I do not know. I may in this connection state an incident that happended recently. A man came to me in khaddar and Gandhi cap and we spoke about banking questions. He showed me some of his accounts and I found he was a client of a Dutch bank. I asked him "why don't you support your own Indian banks?" This is again a political question and in reply he said: "I am sorry to say I have no confidence in an Indian bank; I do not want to lose my hard earned money". Here you are, such being the state of affairs, how do you expect the money to come to you by any legislation?

7848. The idea is to tell the Indian depositors you shall not put your money in foreign banks, take Government securities, industrial bonds or land mortgage bonds, take postal cash certificates or put your money anywhere else?—That means to say, some portion of that money will go to the Indian joint stock banks. My point is that the money that now goes into the foreign banks is that of people who have no confidence in the present Indian joint stock banks and therefore it is difficult to make them invest in Indian banks against their will. I have studied the development of Indian trade and industries. Take the jute trade in Bengal. Messrs. Ralli Brothers and Birla Brothers have all built up in Bengal a very great business. As a matter of fact the Birlas are the greatest exporters after Ralli Brothers and they were not aided by any way by Government in building up their present business. I mean to say talented people will be able to command confidence. Without talent nobody will be able to build up business through any artificial spoon-feeding.

7849. *Mr. Khaitan*: I find you have got very strong ideas against the Imperial Bank doing exchange business. It has been represented to us by a large number of Indian witnesses that the position in India at present of the whole of its external trade being wholly financed by non-Indian banks is not good and therefore it has been suggested to us that some scheme should be devised whereby finances of external trade should, if not wholly at least to a good extent, be in the hands of Indian banks so that we have got to start from the fundamental basis that one of the functions of this committee should be to devise ways and means whereby at least some portion of the external trade of this country may be financed by banks which might be termed Indian joint stock banks. This is the fundamental basis upon which we have got to proceed. It has also been represented to us on behalf of the exchange banks that the exchange business is carried on in great competition between the various banks that carry on exchange operations and we can for the sake of argument presume that view-point to be correct. Now it has also been represented to us by a prominent Indian banker that a bank in order to succeed in exchange business must receive the co-operation of exchange banks. Otherwise if it carries on exchange business it must be prepared to lose considerable sum of money for some years to come. That is also a standpoint which we have got to bear in mind. Therefore we are faced with this situation. On the one hand, we want some Indian joint stock banks to enter into exchange business; on the other hand we have got to bear in mind what kind of competition the Indian joint stock banks that enter into the exchange business have got to face. I shall now quote some figures. Llyods Bank carries on exchange operations in India now. The paid-up capital and reserves of that bank amount to over £25 millions roughly Rs. 34 crores. I will give you another case that of the Chartered Bank of India, Australia and China, whose paid-up capital is £3 millions which equals roughly Rs. 4 crores while the reserve fund of that bank is £4 millions equalling 5 1/3 crores of rupees and in all it works up to Rs. 10 crores. I will give you yet another case that of the Hongkong and Shanghai Corporation whose paid-up capital is over £2 millions which is equal to Rs. 3 crores. It has a sterling reserve of £6 millions equalling Rs. 8 crores and then it has also got other reserves such as silver. These are the banks with which an Indian joint stock bank has got to compete in order to do exchange business. In the past we have been told that the other exchange banks do not co-operate with Indian joint stock banks in doing exchange business. In order to compete with

these big banks who have such huge resources as I have already mentioned to you, do you not think that it will be necessary for the Indian joint stock banks to also have big resources?—Taking the negative side of the question you want legislation to be passed?

7850. I am talking of a pure business proposition. I do not want to take you to politics or any controversial matters. I am only putting it to you that India at the present day is faced with competition from several of these big foreign banks. Indian banks have got to carry on their business not in co-ordination with the exchange banks but have to do so against competition of these banks who have big resources. Please forget politics, please forget patriotism of the Indians to their country. Please look at it from the point of view of a pucca business proposition?—I must at least be allowed to quote the jute industry. Your firm Messrs. Birla Brothers have been able to build up so huge a business against foreign competition. Again take the case of Ralli Brothers who are not helped by British firms but still they are thriving on very well in this country. I can only say that under more national conditions it is quite natural that gradually Indian banks will grow much stronger than they are today.

7851. I do not know if you are aware of the amount of resources that Birla Brothers had to bring into play in order to become big exporters? (No answer).

7852. *Chairman*: Mr. Khaitan's specific question was: should not an Indian joint stock bank, if it is to compete successfuly with the foreign exchange banks, possess large resources?—I agree that in order to compete any big export and import business such as jute would have to put enormous resources.

7853. *Mr. Khaitan*: When you say that the Imperial Bank should not be allowed to do exchange business you put it on the ground of having a very soft corner in your heart for the Indian joint stock banks—Yes.

7854. You put it on the ground that if the Imperial Bank engaged in exchange business, the small Indian joint stock banks would never be able to develop exchange business?—Certainly.

7855. Would not that argument apply to internal trade as well? If the Imperial Bank were allowed to develop internal trade with its huge resources, would it not stand in the way of other Indian joint stock banks?—This complaint has already been raised.

7856. I am asking simply whether the Imperial Bank by engaging itself in internal trade will not stand in the way of the small Indian joint stock banks developing internal trade?—It will.

7857. So you think that the Imperial Bank should not do exchange business. It should not do commercial business?—I do not mean to say that it should be closed down. The charter of the Imperial Bank will only be really changed after a new Reserve Bank has been established. It will then have to face competition along with other joint stock banks, when it will no longer have the use of free Government balances. Take the managers of the various exchange banks in India. They have not been brought up in this line without previous training. It is, therefore, quite impossible that the exchange business of the Imperial Bank will be very successful.

7858. You mean to say that the Imperial Bank will not be successful owing to the exchange business?—It will be a failure.

7859. At first you said that the Imperial Bank will be able to do it successfully while other joint stock banks will not be able to do so well?—I said more successfully than other joint stock banks.

7860. Either the Imperial Bank will be successful or it will not. I want a definite answer to this question?—It will have awful difficulties.

7861. You think that even if it is unsuccessful, it will become a serious competitor in the Indian market?—Yes.

7862. You have said before that exchange business required very great technical knowledge and skill and that the present exchange banks with their long standing and experience are alone able to do exchange business and that other banks will find it difficult. Will it not be easy for a bank with vast resources to engage people of technical skill in order to carry on business? You know technical skill in these days can be bought?—It is not likely enough. A certain organisation must be built up and personally I am for the gradual development of Indian economic life all round. What you suggest will be a sudden jump, and a revolutionary reform in Indian banking.

7863. *Chairman*: Supposing a man starts a huge industrial concern to-day. Is it a slow development or a sudden jump?—It will be a sudden jump if he is not connected with industries or with any bank.

7864. *Mr. Manu Subedar*: Would not the Reserve Bank which you are very strongly in favour of establishing require a high order of skill, personality and organising capacity?—Much higher.

7865. And you do not deprecate the establishment of the Reserve Bank but you urge it as a primary necessity?—Yes; even if it is a shareholders' bank it is under a special charter from Government. As regards the question of technical skill of a high order, I have said that if you have a magnificent Reserve Bank and you have very great men drawing Rs. 10,000 or so as managing governors, it may be a failure as it has been in South Africa.

7866. *Chairman*: I take it that you do not like big jumps. You prefer a slow and steady development and in that connection you mention the case of the Japanese Bank. I think you know full well about the growth of the Japanese Bank. You know that, when it was founded, Government not only subscribed one-third of its capital but also gave it every kind of encouragement?—It would not have been successful without Government help behind it.

7867. Do you suggest that the Imperial Bank should be allowed to take up exchange business if Government help were behind it? If the Imperial Bank had some sort of Government assistance and Government control, even if the Reserve Bank was established, you would not, in view of the experience of the Japanese Bank, object to its taking up foreign exchange business?—If Government would like to consider that a proper, strong and big bank carrying on exchange business should be established, I maintain my view that the Indian joint stock banks will never be able to develop their business.

7868. Therefore, what Japan did in 1900 was not, in your opinion, fully in the interest of the country?—I have heard complaints from the Japanese Banks.

7869. My simple question is whether, in your opinion, what Japan did at that time was a correct course of action?—It hampered the natural development of the other national companies in Japan. I have heard complaints about them.

7870. Therefore, is it your opinion that the action which Japan took in 1900 was an unwise course of action?—If you want to develop only one strong bank, I would say that it was sound in that sense; but if you want a general banking system to be developed, such an action in India would defeat the object.

7871. You say, Dr. Lemenyi, that Japan wanted to have a foothold in the foreign exchange business, They, therefore, actually subsidised one bank so that it might acquire a foothold in the exchange business. In your opinion was the action taken by Japan unsound and against national interest?—On broad views it was not unsound but taking the position of other banks into consideration it was undesirable.

7872. *Chairman*: Let me sum up your chief points thus. You are anxious that Indian joint stock banks should take their proper share in the exchange business of the country; you do not want the Imperial Bank to take up this business; you have other proposals which will have the effect of preventing the passing of exchange business into the hands of the Imperial Bank because you apprehend that that will result in the Imperial Bank securing a monopoly and that no joint stock banks will be able to secure any substantial share of that business?—I agree to that.

7873. You have to some extent modified that view by saying that from the broad point of view it may be desirable to allow the Imperial Bank to take up foreign exchange business?—Yes.

7874. At the same time you are opposed to any action being taken with a view to allowing the Imperial Bank to take up exchange business?—For the simple reason that it would stand in the way of the other Indian joint stock banks.

7875. You are opposed to legislation on the subject because you think it will fail to achieve any definite or concrete purpose?—Yes.

7876. Now, as regards agricultural credit, have you got any new ideas?—I withdraw my suggestions laid down in my statement of evidence that Joint Stock Banks should open Mortgage Departments or that Land Mortgage Banks should be established working on the joint stock principle. Considering Indian conditions, the entire system of agricultural credit will have to be organised by the Central Government and carried out by the Provincial Governments and a uniform type of debentures should be issued only. I think that the Government of India or any Government in this country will be sufficiently strong to tackle such a matter, and being a question of the development of economics it should not be handed over to private joint stock banks. I would also suggest that the handling of the land mortgage debentures should be given to the Imperial Bank because, as I have said, I am opposed to new banks. The Imperial Bank is a very good and reliable organisation. It should be utilised for the administration of such a business which is far more important for India than the little exchange business that there may be. Moreover, there will be less risk owing to Government guarantee.

7877. What are your views about the establishment of land mortgage banks?—I have gone through the Provincial Banking Committee's reports and I find that the Central Provinces Committee is the only Committee which has gone into the details of the question of the establishment of agricultural banks.

7878. What the Central Provinces and other committees have said is already before us. Have you got any views of yours?—Only that a uniform type of debentures should be issued.

7879. Have you studied the system of co-operation and rural finance? —No.

7880. Therefore, I suggest to you that you are not the fit person to express any opinion on this subject so far as India is concerned. In the Central Provinces there is no land mortgage bank but in other provinces like Bombay, Madras and Punjab there are in existence land mortgage banks. The position has further been examined by the Agricultural Commission. If you have got no personal experience of these co-operative institutions or co-operative land mortgage banks, I should leave out of discussion the question of these co-operative institutions?—I did not discuss co-operative questions.

7881. You have already said that there can be land mortgage banks on the co-operative system and you have also said that you do not object to an ordinary commercial bank having mortgage departments?—No, some of them are actually doing it now. I maintain my views laid down in my statement of evidence that the establishment of big industries in India can only be undertaken by the firms commonly known as "Managing Agents". There is no such possible type of an Industrial Bank which could float big Industrial Companies. The initial capital will have to be provided by the Managing Agents as done up to now. Various banks, if banking and discounting of bills is on a proper footing, will be able, as a rule to provide the required working capital. On the other hand the establishment of an All-India Industrial Bank under Government control and guarantee is necessary, in order to be the "Reserve Bank" of the Managing Agency system, providing capital chiefly for extensions and emergency cases and issuing a uniform type of debentures against the above loans, *i.e.*, it would be a kind of Industrial Mortgage Bank. This Industrial Bank should have a branch in every province. Further the Industrial Commission have said that "we do not feel that we have sufficient material before us to enable us to formulate a definite scheme for Industrial Banks. We ask, therefore, for the appointment at the earliest possible date of an expert Committee to consider what additional banking facilities are necessary for the initial and for the current finance of industries; what form of Government assistance or control will be required to ensure their extension on sound basis".

In reply to this question of the Indian Industrial Commission, I beg to state the following: To analyse the question of Industrial banking, we have to separate the various functions of industrial banking, or, let us call them, industrial activities which are the following:—

Firstly, floating new companies by issuing and selling shares;

Secondly, supplying industries with working capital;

Thirdly, finding new money for extensions (new machinery), by raising the capital and selling new shares, or issuing debenture bonds.

Fourthly, maintaining and regulating these shares and debentures in the share market or stock exchange; and

Fifthly, taking over industrial undertakings which are already in existence as I have described in my memorandum, where the existing industries are linked up with all kinds of the Managing Agency system.

I would suggest that the first, second and third should be handled by the Managing Agents and that the industrial bank should only be a kind of reserve bank on the top of the Managing Agency system which would help the Managing Agents in two cases: Firstly, if they are short of working capital and are unable to get it from a bank, the industrial bank, under Government guarantee and control, would come to their help. Secondly, and this is the most important, where an industry wants to make extension or buy new machinery and has to get money on block account and when the Managing Agents are unable to float new debentures, the industrial bank will have to find out whether the industry is a sound one and then it would help the concern by giving it loans under the guarantee of Government which would be taken as securities and surely taken up by the Indian money market. Cases of failures and liquidations would also come up before the industrial bank. If the industrial bank finds it unreasonable to help a particular industry because of its working on an unsound basis, liquidation would take place under the leadership of the industrial bank. You know that if liquidation is too quick, perhaps the assets have to be sold too quickly and therefore the industrial bank should help the liquidation or if it could be amalgamated with another suitable industry, it should carry out the amalgamation. Regarding small industries, the Director of Industries of one of the provinces was good enough to give me various suggestions and I consider that the financial aid to small industries in India will have to remain in the hands of the Industrial Departments of the Provincial Governments which should be developed on fairly practical lines. These are my suggestions regarding industrial banks.

7882. *Dr. Hyder*: Your idea is that the Managing Agents should occupy the position of Industrial banks?—They are occupying it at present.

7883. Therefore, they should continue to occupy it?—The industrial activities of the Managing Agency system in India are absolutely similar to the industrial activities of the big banks of the mixed type in Europe, as I have described them.

7884. If I may suggest to you, you have enumerated certain functions which are performed by banks on the Continent. You say that those functions are being at present performed by the system commonly known as the system of Managing Agents?—Yes.

7885. And your opinion is that this system should continue?—Yes.

7886. Is it the best system?—I have pointed out that the Managing Agency system has been criticised on account of certain disadvantages as the industrial activities of banks in Europe have also been. As long as we have human institutions, they will always have some advantages and some disadvantages. The big banks in Europe are also constantly accused of making profits, taking out money from industries, charging very high com-

missions; all these charges are usually made here against the Managing Agents. There is no difference, except that in our country the industrial activities are stronger and there are big banks who carry out those activities. Therefore, I have suggested that there should be a Reserve Bank in India for the Managing Agency system.

7887. *Mr. Manu Subedar*: Would you allow the Managing Agents to go direct to the Reserve Bank?—No.

7888. I take it that the Reserve Bank would be a bankers' bank and would only deal with banks?—The Managing Agents would be accepted as a commercial firm.

7889. Would you allow a firm like Martin and Co. to de-discount their bills directly?—Not in any case for the first five years.

7890. But would you allow?—If that were done, an agitation would immediately be started that the Reserve Bank is competing with every other bank.

7891. You know there are large Managing Agency firms and small Managing Agency firms. Would you make a distinction?—No.

7892. But there are Managing Agents of small companies, with a capital of say Rs. 50,000?—I would never mention the words 'Managing Agency' in an Act or Bill. It is one of the business institutions in India, but there is no great difference between a larger and a smaller firm a legal point.

7893. What is your method of linking up the Reserve Bank with industrial finance?—Supplying the industries with working capital would be usually done through the joint stock banks.

7894. Not through the Managing Agents direct?—That is impossible.

7895. But you say that after five years they could go direct to the Reserve Bank?—The Reserve Bank later on could also do open market operations and then they could buy directly, but for these acceptances two signatures would be required.

7896. *Chairman*: We are dealing only with the big industries and not with the middle-sized or small-sized industries, in the case of which now in many places finance is supplied by Managing Agents. Is it part of your scheme that in future working capital will not be supplied by Managing Agents, but only by commercial banks?—It will be supplied through the Managing Agents.

7897. It will be supplied by commercial banks through the Managing Agents as a rule?—Yes.

7898. Therefore, the Managing Agents usually will not supply capital for working expenses?—They will; it is a kind of banking, but not regular banking. Let us say, there is a Managing Agency firm and a cotton mill. The cotton mill sends all kinds of goods to the dealers, gets drafts and the drafts will have three signatures. The Managing Agency will go to a bank, because I believe the Managing Agent would not allow the mill to go direct as he would want to make a profit on the transaction.

7899. Therefore, your proposition is that, initially, the industrial concern should go to its Managing Agent for its working capital?—Yes.

7900. If the Managing Agent finds it difficult to supply the working capital at any stage, it will take the concern to the industrial bank?—Yes.

7901. From that point of view, the Imperial Bank is actually doing that work at present?—Yes, therefore I suggest that the industrial bank should be a department of the Imperial Bank.

7902. I am trying to find out what additional duties you want to impose on the Industrial Department of the Imperial Bank? In regard to the provision of working expenses, the Imperial Bank is already exercising that function, provided the security is adequate. Other joint stock banks are also exercising a similar function. Is it part of your scheme that other joint stock banks should in future be precluded from doing that work? —No, it is not. Any bank will give money to a Managing Agent, if he values him as a client, or they will take deposits also, as at present.

7903. Therefore, there is no special feature in your scheme so far as it relates to working expenses?—This industrial department will have special experts who would decide whether for the sake of building up an Indian industry it is absolutely necessary to render some assistance regarding working capital, *i.e.*, daily expenses. It may happen that an industrial concern gets out of funds and cannot get money anywhere and thus become bankrupt. The Imperial Bank is not forced to go to its help and supply capital if it does not want to. But it will be done under Government assistance and loans would be given as under the State Aid to Industries Act.

7904. In order to make the issues clear, I had separated the working capital from the capital for initial block or for extensions to block. In regard to capital for working expenses, is it your proposition that the Industrial Department of the Imperial Bank should in future grant an advance on less satisfactory securities than it now does? The Imperial Bank does it now if there is adequate security, and unless you are going in any way to modify the nature of the security, there is no special feature in your scheme?—There is in emergency cases.

7905. In emergency cases, it gets temporary accommodation. The industrial concern may be saved from having to go into liquidation. In a case of that sort, on what security would either the present Imperial Bank or the Industrial Department of the Imperial Bank give an advance?—This would have to go before the Banking Board or a combined Banking and Industrial Board and they would decide that the industry being in a bad position a few lakhs should be given for a few months until the concern was able to export and sell the goods and put itself on a sounder basis. But this case would not be such a secure one for the existing banks to give money.

7906. Therefore, in the case you are referring to, it is really Government assistance that is given. The Industrial Department of the Imperial Bank, by itself, would not give the assistance?—No, it would have to be sanctioned by a higher Board.

7907. That is the only special feature in your scheme in regard to working expenses?—Yes.

7908. I shall now come to block capital in which I shall include capital for extensions or improvements to block. At the present moment the concern itself raises the money by share capital or it gets it from the Managing Agents, who may thereafter float debentures. What would the position be under your scheme? Who will supply the initial block

capital?—The initial block capital would always have to be supplied by Managing Agents or the industrialists who want to float the industrial concern. The Industrial Department would not float new companies. We have agreed that the only right men to float new industries are successful old industrialists.

7909. I understand your idea to be that the initial capital for block should be supplied by the people who want to start the concern?—Yes, let us call it private enterprise.

7910. I would not rather use the words 'private enterprise'. It will have to be supplied by shares or by the Managing Agents.—Not in all cases. Suppose the person concerned has some good friends who come to assist him. In a way they will become directors and perhaps they will have some shares, but the greatest part of the capital will belong to one man.

7911. As soon as you try to make it a joint stock concern, there must be shares?—Big industries are sometimes privately owned.

7912. I admit there would be a certain amount of private capital but in all cases it might not be private capital. According to your ideas at this stage, the industrial bank will not render any assistance?—No.

7913. The concern is floated and then it finds it wants additional capital for extension or improvement of the block. What would be your procedure? Should they not in the first instance try to raise the capital again through private sources?—That was my suggestion.

7914. But if they fail to do so, then they should approach the Industrial Department of the Imperial Bank. Is that the idea?—Yes.

7915. And on what security will the Industrial Department of the Imperial Bank advance that money?—Perhaps you may have to change the machinery, the old generator is breaking down, or you want a new steam engine. It is not an extension or improvement always.

7916. Let us add the word 'renewal' ?—There must be an industrial expert and a financial expert, these experts will make an enquiry whether it is necessary for the mill to change the machinery, and whether the Managing Agents are incapable of raising money by issuing debentures or raising the share capital and selling shares, etc. The experts may refer the matter to a higher Government Board and submit a report. The Board will have to decide whether the loan is really secured by the mortgage of the new machinery and whether the concern should get the loan or not. Such a loan could be issued as gilt-edged securities.

7917. In certain cases there may be actual security that is what you call the plant and machinery, existing. The mortgage of the existing plant and machinery may form the basis of the security. I admit it would be necessary to take expert assistance, but if it is found that even with that assistance, the industrial concern cannot be run successfully, the plant and machinery which is offered as mortgage security will be valueless and there is no real security behind the loan.—The new machinery which may be bought, say, for 30 lakhs would be a security to a great extent.

7918. Will that be an adequate security? If the particular industrial concern cannot, with the help of the new machinery, run the industry successfully, will that new machinery have any marketable value?—The new power house, turbine generator or the textile machinery can always

be sold at a certain loss. Moreover, the experts would decide whether the security of these is reasonable and limit the amount of the loan accordingly.

7919. There come in the experts, and the decision would be taken with reference to the advice of the experts. Therefore the fact that the machinery is there to provide security for the loan will not by itself be adequate.—Yes, it is to be based on the experts' opinion.

7920. You are probably aware that even in a case like that, the Imperial Bank might make advances, not on the security of the plant, but on personal security. Is that not correct?—They might give clean credits. At present the clean credit is first given for six months, but in practice it is thereafter renewed and I believe there are cases where the credit has gone on from year to year. The Imperial Bank and joint stock banks actually give that credit on the mortgage you are referring to. Therefore even at the present moment, there are facilities for getting that credit.—Yes.

7921. You say this work should be concentrated on industries.—No.

7922. Where would the change come in? Is it again Government assistance?—Yes.

7923. It is not a case of concentration.—No, if he can find money from the Imperial Bank, it is all right, but he is incapable of getting it.

7924. According to your ideas he must first approach the Industrial Department of the Imperial Bank.—Only in emergency cases.

7925. He wants to renew his machinery and he naturally first approaches the Industrial Department of the Imperial Bank?—But if he is very friendly with a joint stock banker, he will naturally go to him.

7926. Suppose he has gone to the joint stock banker and failed. He comes to the Industrial Department of the Imperial Bank. That Department will not work in water-tight compartments. The Imperial Bank as a whole will then take up the proposition and it may or it may not agree to advance money on clean credit. If it agrees to advance money on clean credit, there is no trouble, but if it does not, then the experts come in and the real point is that on his advice the Imperial Bank goes up to Government and says, "now, will you in some form or other guarantee this advance?" Is that not so?—Yes.

7927. If Government agree to give a State subsidy, whatever the form may be, then only will the Imperial Bank finance the concern.—Yes. But the Imperial Bank can always get the money back through selling the debenture bonds.

7928. Your main idea is that where the Imperial Bank comes to the conclusion that there is not adequate security on which it can give an advance it puts forward a scheme before Government and tells them if you will provide State assistance of some kind or other we can give the required assistance to these particular industrial concerns and that will help in tiding over a difficult period and will avoid going into liquidation.—That is my idea.

7929. Therefore it is really the question of Government assistance?—Yes.

7930. We now come to the nature of Government assistance. Your idea about Government assistance is that the Imperial Bank having given the advance, the Government will replace these advances in the form of a guarantee of the debenture. Will Government guarantee interest or capital as well on these debentures?—I think guarantee should be for capital as well as interest.

7931. Therefore if that guarantee is for both capital and for interest, is it substantially different from a Government loan?—It is exactly the same as Government loan.

7932. Therefore the introduction of this complication of the debenture bond is not really helpful. It is pure and simple a case of Government loan?—Cannot Government lend money out of their revenues.

7933. All Government funds are not utilised in the form of loans. You are now confusing the issue with the State aid given to industries in the provinces?—I am sorry I have not yet gone into the detailed study of Government finances. I have not had time to study these things although I have been spending several hours a day to study banking problems in this country.

7934. Government will have to raise money by loans. It will compose of several items like railways, irrigation, and for grant of casual assistance to industries, etc. They will then decide how much money they should raise in the open market by way of loan to supply all these needs. As your proposition is that Government should guarantee both the capital and interest on debentures, is there any difference between that form of debenture and actual Government loan?—It would I think be slightly different from a money market point of view. I have not studied the system of Government finances.

7935. We fully realise the great amount of labour you have devoted to this subject. If you had simply said that you have not thought about it I would not have pursued this matter and it is only because you said that the Government should guarantee the capital and interest on debentures that I had to pursue the matter. Is it your modified view then that interest should alone be guaranteed by Government? The Imperial Bank having floated debentures on the guarantee of interest by Government will try to pass those debentures in the open market. Therefore in the course of 20 years, if it is a good proposition, these debentures will be coming into the market and then the point is that the Imperial Bank will have a certain liability. If the concern is not good enough, the Imperial Bank will not be able to pass the debentures into the market. Therefore before the Imperial Bank makes any recommendation it will have to be careful. On the other hand if it is the tax-payer's money pure and simple the Imperial Bank may not be so careful. The chances of Government losing that money (for which it guarantees capital and interest) would be much greater. On the other hand if the Imperial Bank has a joint interest in the business, *i.e.*, even if the Government guarantee the interest, the bank cannot pass out those debentures into the market as people may be doubtful whether after the period of Government guarantee is over, say 20 years, that security may have any value in the market or not. If you tell us what your precise views are in this matter, I think we shall have practically finished.—Originally I was against an

industrial bank. I thought everything should be done by private enterprise. I now find that the Indian economic development can only really be done with a certain amount of Government aid and I therefore came to the idea that an Industrial Reserve Bank should be established for rendering assistance to the industries. I had very little time to think over the whole thing. I agree with your great experience of Governmental affairs and I am now absolutely convinced that this part of my suggestion is wrong and I now think that the State aid should be given by means of loans to the Imperial Bank for the latter to advance industrial concerns

7936. Therefore you advocate Government loans, pure and simple, in emergency cases?—Yes.

7937. You have said that you have changed your views. I am now on this question of big industries. May I suggest to you that your scheme will not go towards the development of big industries because according to your ideas the initial capital must be found from private sources or from the share capital. The working capital should be found on some security which may be provided for and according to you it is only in emergency cases that you want Government to come to the aid of that already established industry by means of Government loans?—Yes.

7938. I shall now proceed to small industries. When you talk of small industries I take it you include middle sized industries. Now I want to find out from you what you really mean by small industries?—Big industries would be financed by the Government of India and the small industries would come under the purview of local Governments.

7939. I request you to leave out of consideration the sphere of operations of Central and Provincial Banks and confine yourself to elucidating what you mean by small industries?—Small industries are things like a small flour mill, oil mill and such other undertakings with small sums of capital.

7940. I should like to know from you what your idea is about a small industry?—This Board which has to deal with the question of big industrial finances, will have to decide as courts of law decide the question of jurisdiction.

7941. I am afraid it does not help to bring in constitutional questions. Would you allow the Imperial Bank to decide whether it is a big industry or small industry. In the case of big industries, you refer to such industries like cotton textile mills, the jute mills or the iron and steel works and so on. I wanted to know what you mean by small industries? If you specify big industries and say everything else would come under small industries, it is an understandable proposition?—It would be difficult to lay down any hard and fast rule like that because if some other industry has to be added to it then the Assembly will have to do so.

7942. Leave out the question of constitution for the present. Ways and means would be found to do so. If we pursue your idea and if we lay down a list that list can only be for the immediate future and if circumstances require any additions it would be done. That is not a matter with which you or I need concern ourselves?—The question is how will you discriminate between big and small industries. I think you will have to make a limit in rupees with regard to the capital and other resources of the concerns in regard to this matter to differentiate between big and small industries.

7943. Small industries according to your ideas represent industries whose capital *plus* Reserve funds do not exceed certain limits; if the Committee pursues your ideas, they will have to work out details?—That is so.

7944. *Dr. Hyder*: On a point of procedure. Seeing that you have withdrawn portions of your original statement may I ask whether you wish to abide by it or do you want to abide by what you have stated before us now orally?—My original memorandum stands as amended by my letter to the Chairman dated the 23rd September 1930 and my various personal statements amplifying the same.

7945. There is no inconsistency, I hope?—It is for you to judge. I feel that Indian joint stock banks cannot be developed into such forms of European banks of the mixed type.

7946. *Chairman*: You refer to dozens and dozens of Indian joint stock banks that have failed and state that the only possible solution of a further development is the extension of the surviving big banks and the expansion of their operations and that you disapprove strongly of the idea that new banks should be established. Do you still adhere to this view?—Absolutely.

7947. And you are in favour of concentration of existing banks and not on new banks being started?—That is so.

7948. *Mr. Manu Subedar*: You said loans should be given by Government from the tax-payer's money to industrial concerns. Would you suggest that these loans should be given to industries in cases of emergencies?—Yes, only in the case of emergencies.

7949. Do you suggest that these loans should be given to industries which are established by foreigners in this country?—I am afraid I cannot answer that question.

TWENTY SEVENTH DAY.

Friday the 26th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*)

Mr. D. P. KHAITAN.	Lala HARKISHEN LAL.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. JADU NATH ROY.
Sir HUGH COCKE, KT.	Mr. G. K. DEVADHAR, C.I.E.
Dr. L. K. HYDER.	Mr. NALINI RANJAN SARKAR.
Mr. W. LAMOND.	Mr. R. K. SHANMUKHAM CHETTY.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Mr. K. M. MacDonald, Managing Governor, **the Imperial Bank of India** was examined.

7950. *Chairman*: You say that fixed capital expenditure or block should in the first instance be met from share capital and later, if necessary, by issue of long term debentures. You say however that industrial company debentures are not as popular as they might be. Other witnesses have also endorsed this view and further submitted that it is difficult at present to mobilise capital for investment in the share capital of industrial concerns. In view of this would you kindly tell the Committee whether in addition to the establishment of Investment Trust Companies any other steps should be taken in order to mobilise capital for such purposes?—I think the first step towards mobilisation of capital for investment in industrial concerns should be in the direction of putting those concerns on a footing which justifies an appeal for capital from the general public. There are today certain industries which have placed themselves in that position, but as you know India is said to be at the beginning of an industrial era. It is certain that many attempts are being made to establish new industries or to enlarge the field of those existing and I fear there is no way of escaping the experience of other peoples that the pioneers in such new ventures must be prepard to risk the loss of money before they will reap the reward of their efforts; it is after that experience has been gained that an appeal to the public is justified and I do not think that any true Investment Trust or Industrial Bank would consider appeals for capital, before that stage has been reached, as business propositions. New industries are a field for private enterprise and in India as elsewhere it is a difficult matter to place them in a position in which an appeal to the public can be made, but once that position has been reached capital will not be found wanting as has been proved in the case of well established forms of manufacturing activity. The State Aid to Industries Act might be used in the earlier stages to give support but I would prefer to leave the matter to private enterprise which is more likely to lay sound foundations. I think it is true

that Investment Trusts and industrial banks follow the establishment of industries, they do not create them.

7951. You say that the practice of financing block expenditure from deposits from the public has on different occasions been a source of embarrassment during periods of depression and cannot be recommended. It has however been pointed out to us by the representative of the Ahmedabad Millowners' Association that the system has been put to test for the last 25 years and has succeeded so far and that so far as one can see, no change need be made in Ahmedabad. May I take it therefore that your suggestion that the practice cannot be recommended refers only to its adoption as a universal practice and that where it has been a success, you would not recommend its discontinuance?—I think the finance of industrial concerns by means of deposits is fundamentally wrong. It is fair-weather friend and the 25 years' experience in Ahmedabad, successful as it has been, does not get over the fact that when bad times come as come they must, the deposits are a serious danger in that they are liable to be withdrawn. They prevent the supply of banking and debenture capital because the creation of charges over the assets of the company would result in the withdrawal of the deposits, and naturally the withdrawal of deposits will probably only take place under conditions which will make other lenders chary of giving loans. Also interest on the deposits must be paid whereas the share capital in place of which they are used could go without its dividend if necessary.

7952. We were told by the representatives of the Millowners' Association of Ahmedabad that the practice has recently been started by which the managing agents take long term deposits—7 years is the period generally mentioned. The first part of your objection was based on the undesirability of applying short term deposits to capital expenditure and thereby locking the money for a long period. If these deposits could be made into long term deposits, would your objection still apply?—Yes, of course it is modified to some extent by the fact that they are long term deposits, but even so, I think, that deposits which are really taken to take the place of share capital are objectionable on the grounds which I have already indicated.

7953. If these long term deposits were intended to take the place of debentures, would your objection still apply?—Even such a term as 7 years is too short. If they are going to take the place of debentures, they should be for a much longer period.

7954. For what period in your opinion would these long term deposits be to make the transaction a safe one?—I think 25 years would be a reasonable term for a debenture issue and I would apply that period to deposits if they were intended to take the place of a debenture issue.

7955. So in your opinion the terms of the debentures should be 25 years?—That is a reasonable period.

7956. A smaller period like 10 or 15 or 20 years would not be a reasonable period?—I do not think 10 years is long enough.

7957. But you would not object to such a period as 15 to 20 years though you would prefer 25 years?—Yes.

7958. *Sir Purshotamdas Thakurdas*: Where there are 10 year deposits they would not serve the purpose of the debentures in your eyes?—The debenture has a definite mortgage over the property while the deposit has no specific security whatever.

7959. To that extent is it not an advantage to the borrower; if you can get 10 year deposits instead of 10 year debentures, from the point of view of the borrower, it is better to take the deposits?—On that ground, yes.

7960. If lately a practice has developed to issue 10 year debentures, you do not think that that is as good as a debenture which would serve the purpose of the industry correctly, namely, for 15 or 20 years' term?—No, for it is impossible that the debenture can be redeemed in 10 years.

7961. *Chairman*: As regards the establishment of Investment Trust Companies, would you kindly explain to the Committee what practical steps should be taken for the establishment of such companies?—The true Investment Trust is the association of expert financiers and industrialists of the highest standing operating very often in a world wide field. They can only be successful when the knowledge, experience and ability which time alone can provide is available in combination with integrity and their organisation should in my opinion be left to the initiative of the class I have mentioned.

7962. Are you aware of any such attempt being made in the past and with what result?—I am aware of only one or two Investment Trusts which have been or are operating in India. In every case except one they were private concerns on a small scale and their results vary in accordance with the energy and ability put into their management and the opportunities offered. The exception was a concern in Rangoon floated during a boom in shares about 1908—in the absence of the characteristics mentioned earlier the concern was not a success and had only a short life.

7963. You say that the Indian investing public prefer a security which gives a prospect of capital appreciation. Do you think this is a peculiar trait of the Indian investor, which is not noticeable in investors in other parts of the world?—No. In every country there are investors who prefer a steady assured income and others who prefer the prospect of an increasing return and consequent capital appreciation or a capital appreciation which may be due to stock exchange operations. I am inclined to think however that the element of speculation has a great appeal to a large proportion of Indian investors—possibly a larger proportion than elsewhere.

7964. Could you kindly tell the Committee from what classes investors in industrial undertakings are drawn in India?—Investors are drawn from a very wide field from independent Princes to the clerical worker in the cities. I doubt that the ryot or pure agriculturist is much interested, but the Calcutta and Bombay Stock Exchanges could give you reliable information on the point.

7965. You say that loans from banks are usually secured by a charge over stocks accompanied by the guarantees of third parties. It has been suggested that it is rather unreasonable on the part of banks to insist on additional guarantees by third parties in cases where loans are already secured by a charge over stocks. Could you kindly tell the Committee the reasons for asking for such additional guarantees on the part of (1) the Imperial Bank of India and (2) other joint stock banks?—In cases where a pledge on stocks is given it is not usual to require the guarantees of third parties. A 'charge' however is a very wide and elastic term which embraces pledges hypothecations, liens, mortgages equitable and registered, etc., and according to the ideas of the individual the term may refer to any of them, although the security given by each may be entirely different.

So far as the Imperial Bank is concerned a guarantor is only required when the so-called charge is not a sufficient security in itself. I cannot say what reasons move other banks in the matter.

7966. The Committee have been informed by some witnesses that recently there has been a stiffening in the policy of the Imperial Bank in regard to the grant of financial facilities to industries in Bombay. Could you kindly tell the Committee whether this is a fact and if so, to what causes this policy is attributable?—The policy of the Bank has not changed in any way. The witnesses referred to probably confuse policy and the application of that policy. In this case prudent banking obviously requires that when an industry reaches the state in which the Bombay mills are now, supervision of advances should be alert both in the interests of the mills and of the Bank itself.

7967. As regards advances against authorised securities you say that they are usually given at the Imperial Bank rate. Would you kindly tell the Committee in what circumstances the usual rate is departed from?—The time of year, the nature of the advance (loan or cash credit), and of the security, the presence of a minimum interest clause, the volume of business, are conditions or circumstances under which the usual rate may be departed from.

7968. You say that the requirements of industrial companies with regard to floating capital for stock and other resources required have been met freely by banks in the past according to the credit of the borrower. The Bihar and Orissa Committee categorically deny that the Imperial Bank and joint stock banks play an important part in financing the industries in that province. The Bengal Committee also say that sufficient credit facilities are not at present available from banks which do not usually entertain any proposals for making advances either against block or against stock of raw material or finished goods. Could you kindly tell the Committee the part played by the Imperial Bank in financing industries in the various provinces?—This is a very long list, Mr. Chairman; as you wish, I will read it out or hand it in. We have advances in many ways, in the way of discounting bills, cash credits, loans; we remit money and we buy demand drafts or bills in connection with a long list of industries which are detailed here (in this list) under each province. (Attached as appendix.)

7969. Those are the principal directions in which you afford assistance? —Yes.

7970. You say that in your opinion industrial banks would not be a success in India at present. You seem to emphasise the word "at present", as later on you refer to the present stage of development in India. Would you kindly explain to the Committee your reference to the present stage of development and why you think there will be little likelihood of the investing public having confidence in industrial banks?—I would like to refer to my answer to Question 7950 which deals with this matter.

7971. It has been represented to us by various parties that under present conditions it is difficult for Indians, particularly in the case of sound middle or smaller sized concerns like rice and oil mills hosiery and match factories, soap works, etc., to raise adequate capital initially by shares, etc., to provide the whole of the block and the working capital,

before goods can be produced and made available for hypothecation; and that if financial resources were available even for a limited period of, say, two years on the security of block or of a guarantor, the establishment and development of such concerns would be facilitated. Would you kindly favour the Committee with your views on the subject?—There is no disputing the fact that if funds were available for say 3 years on the security of block, the development of such concerns would be facilitated. But I think that these new industries such as soap works, match factories should really be the subject of private enterprise before they go to the public for support.

7972. The point is this: they probably begin as a result of private enterprise; but the private financier begins by supplying a portion of the funds; then the amount of money is exhausted and the concern wants some more funds before it reaches the stage of production when it can produce the goods which are available for hypothecation; at that stage it wants accommodation for say 2 or 3 years and it is in a position to produce the security of the block or of a guarantor?—Until they are at the producing stage, they ought to supply it from their private resources.

7973. If industrial banks are established, you are of opinion that they should not take short term deposits. It has been suggested that industrial banks should finance not only block capital but also meet the requirements for working capital in special cases, and that from this point of view it might be necessary for the industrial banks to attract short term deposits also. Do you agree with this suggestion, or would you restrict the operations of the industrial banks to advances for block capital only, leaving the finance required for working capital to be supplied by existing commercial banks?—It is possible for an industrial bank to finance both block capital and working capital by means of combined long term and short term deposits, but the risk of confusion between the two is such that I prefer to have them entirely separate in different institutions which specialise in their particular forms of finance.

7974. It has been suggested that after the creation of the Reserve Bank, the Imperial Bank should be converted into an industrial bank, empowered to raise debentures for fifteen to twenty times its capital and reserve, invested with the other features of that institution and directed to work the change that is, from a commercial bank into an industrial bank by an easy transition. The reason is this: the industrial banks, to be successful require first a staff of administrators who are acquainted with the business world thoroughly and who know the individual businessmen and the conditions of each industry and on the staff of the Imperial Bank you have a body of men who have known the Indian business world so thoroughly that for them to shift from one branch of inland banking to another is an easy matter. Of course it is a great compliment to your Bank?—I think that if any such proposal was made, the shareholders of the Bank would have to consider whether it would pay them better to become an industrial bank or to continue as a commercial bank.

7975. That aspect of the question I fully realise. I was only trying to obtain your personal views about it. If however you prefer not to say anything on the subject, you are at perfect liberty to do so?—I would rather not say anything more than that.

7976. You say that the requirements of exporters and importers appear to be well met. Are you aware of any complaints that Indian exporters and

importers do not secure the same facilities that non-Indian exporters and importers are able to obtain?—I am aware of such complaints and I have gone into the matter carefully over some years. The conclusion I have come to is that irrespective of nationality or race traders of equal standing and reputation receive equal facilities and terms.

7977. *Chairman*: You say that traders of standing and repute have little difficulty in making arrangements for finance. Would you kindly explain to the Committee the means employed by banks to ascertain the standing and repute of traders?—Banks have their own intelligence departments which, by watching markets and the operations of dealers in those markets, by the receipt of information from the many sources open to them, confidential and otherwise, by the observation of individuals by trained observers, by the examination of books and balance sheets and the summing up of the information so received by the officers of the bank, arrive at their estimate of the credit that should legitimately be granted.

7978. You are satisfied personally that arrangement operates equitably to all classes of customers?—Yes.

7979. You say that the present practice of releasing goods on trust receipts is sound so long as it is honestly carried out with proper precautions and that any restrictions which would have the effect of prejudicing the position of subsequent holders in due course of the relative goods, or the sale proceeds of such goods would be a definite danger and hindrance to trade. Would you kindly explain to the Committee what restrictions you have in mind?—The restriction I have in mind is any such as would enable a creator of the trust to follow the goods or the proceeds of the goods to the prejudice of a holder in due course because of a breach of trust by the trustee.

7980. Would it be possible for you to pursue the matter further by giving us some specific instances?—I take the case, which is quite a common one, of an importer who accepts a bill with documents deliverable on payment of the bill. It is quite a common practice for the documents, which are equivalent to the goods, to be delivered before payment on the execution of a trust receipt by the acceptor, *i.e.*, the importer. That trust receipt has a great many conditions which of course operate as between the importer and the holder of the bill. The importer so comes into possession of these goods as a trustee. If he sells the goods in breach of that trust to an honest buyer, I do not think that the breach of trust should act to the prejudice of the honest buyer.

7981. The Bengal Committee have pointed out that in mofussil centres there is no arrangement by which goods can be offered as security for loans. They have added that certain joint stock banks of Calcutta used to advance a few years ago on the security of the stock of the aratdars and that even to-day the Imperial Bank lends in that way to some European houses, but that so far as the Indian merchants are concerned, those facilities have ceased to exist. It is said that the aratdars have consequently to borrow on their personal credit to make advances to the owners of goods stored in their arats. Would you kindly tell the Committee whether the Imperial Bank carries on such loan operations in the mofussil on the security of goods stored in godowns and whether they make any discrimination in the manner pointed out by the Bengal Committee between European houses and Indian merchants? If so, would you kindly tell the Committee to

what cause this state of things is attributable?—The Imperial Bank does carry on such loan operations in the mofussil and is always prepared to advance to parties of suitable standing provided the goods are approved and storage is satisfactory. There is absolutely no discrimination made by us between European and Indian or other merchants. I may say that the European storage is, as a rule, much better than that of others.

7982. But would that be a consideration in the minds of the bank authorities in refusing a request from an Indian customer provided that the storage accommodation is satisfactory, though it may not be as good as that produced by a European customer?—If the storage accommodation is satisfactory, the fact that it is not quite as good as another person's, European or anybody else, would not have the slightest effect.

7983. You think that if drafts drawn for the finance of goods during transit between the interior and a port (or any other station) were treated as demand drafts for the purposes of stamp duty, the finance of goods in transit would be simplified. You also say that in India the period of transit is considerably longer than 3 days. Would you kindly suggest the maximum period for drafts drawn for the finance of goods which should be treated in India as demand drafts for purposes of stamp duty?—I think 15 days would meet the case.

7984. You say that you are in agreement with the answer of the Bengal Chamber of Commerce to question 3 under Regulation of Banking. The Bengal Chamber of Commerce consider that the allocation of profits to dividends should be restricted by the obligation to set aside adequate sums for reserve fund. Would you kindly tell the Committee what sum you consider adequate for being set aside to form the reserve fund?—This must depend on the circumstances of each case. As a general rule, I think 25 per cent. would be enough. This is in addition to full provision for bad and doubtful debts and depreciation on assets.

7985. The Bengal Chamber also suggest that there should be restrictions against banks taking up outside business. Would you kindly tell the Committee how you would interpret "outside business"?—By 'outside business', I understand, is meant business which is not within the legitimate and recognised field of banking operations. If I remember correctly, the memorandum and articles of association of many banks registered in India in recent years empowers the concern to undertake practically any business.

7986. There again I think you have used the expression 'legitimate banking business.' Would you kindly define what you call 'legitimate banking operations'?—I think I could do it easier by telling you what is not legitimate. A bank which conducts a rice-milling or flour-milling business, or which operates a light railway, would be going out of its legitimate function.

7987. You mean one that has actually started trading operations?—Yes.

7988. You would not object to the bank advancing money to any of the concerns you have mentioned on adequate security?—No.

7989. You say that the business of co-operative banks should be confined to co-operative banking and that they should not be allowed to compete in other forms of banking with commercial banks or indigenous bankers. Would you kindly tell the Committee whether co-operative banks

at present do actually compete in other forms of banking and if so in what direction?—They do not compete at present to any great extent. But there is a considerable body of opinion among those interested in the Movement that they should undertake all forms of banking. Current account business, in so far as it attracts funds to the banks for the use of these societies is legitimate, though there is an important consensus of opinion that the banks have not the necessary knowledge or organisation safely to undertake it and that demand deposits are not desirable considering the present lock-up of business in the co-operative banks. The forms I had particularly in mind were the purchase of drafts and sale of remittance to which I have referred in my written answers.

7990. On these two specific points I may have to ask you some further questions on your written answers, but for the present I shall leave it at that and, if any of my colleagues want to pursue the matter, they might do so.

7991. You say that foreign banks operating in India may be required to obtain a license from Government, but that once a bank has obtained a license it should not be possible to withdraw it so long as the bank complies with the law. Would you kindly explain to the Committee what law you are referring to?—I refer to the law under which the license would be granted and the provisions in the Joint Stock Companies Act relating to foreign companies operating in India.

7992. You say that no special regulations need be prescribed for governing the operations of such foreign banks. Is it your intention that the law which governs the joint stock banks in India should govern the operations of foreign banks also?—Yes, in so far as they can be applied to foreign banks.

7993. You say that the conditions under which licenses would be granted should not include any which would restrict the free supply of banking capital and the facilities which are available from this source. I take it therefore that you are not in favour of placing any restrictions on the receipt of deposits by the foreign banks in India or in any way restricting the facilities now granted by these banks to exporters and importers, whether Indian or non-Indian?—I am not in favour of any restrictions such as those mentioned.

7994. You say that amalgamation or reconstruction is a matter of arrangement by the proprietors (shareholders) and creditors. It has been suggested that the expert advice of a Central Banking Institution or of a Bankers' Association in the country might be useful in regard to this matter, although the final voice should be left to the shareholders and the creditors. Would you kindly state your views on this suggestion?—In practice the expert advice of the Central Banking Institution would be, and in fact has been taken in such matters. In the absence of a Bankers' Association in this country, I am not prepared to say whether or not the opinion of any future one should be taken. The present practice is satisfactory.

7995. You say that there is no co-ordination of effort between banks and universities. Do you think that such co-ordination is necessary and desirable? If so, will you kindly suggest what steps should be taken to bring about such co-ordination?—I think co-ordination is most desirable and that steps should be taken by the Institute of Bankers to arrange for university lectures and courses of instruction in all subjects included in the examination of the Institute.

7996. You say that staff officers of your bank are now to an increasing extent being promoted from the Assistants trained in the Bank under the Probationers' scheme. Would you kindly give an idea of the proportion of direct recruitment and promotions to the staff officers' posts at present and whether it would not now be possible to stop recruitment in England for those posts?—It is not possible to stop recruitment in England, because there is not a sufficient supply of suitable men available in India. Direct recruitment from London and from the staff in India has been as follows:—

	Recruited from London.		*Recruited from staff in India.*
	Europeans.	*Indian.*	*Indians.*
1925	32	1	13
1926	6	1	1
1927	3	1	1
1928	8	1	4
1929	6	..	7
1930	..	..	1

7997. It has been suggested by the Bombay Provincial Banking Committee that the Imperial Bank should embark on a more vigorous policy of Indianization in the near future, particularly in promoting Indians to higher and more responsible positions with a view firstly, to reducing the cost of management and secondly, providing a personnel that understands the language and is conversant with the life and habits of the people among whom business is to be conducted. Have you any observations to make on this suggestion?—A vigorous policy of Indianization is being pursued.

7998. You say that the clerical staff of the Imperial Bank of India is usually selected from young men who have just left school. It has been pointed out that there are various commercial schools in the provinces where elementary commercial education is imparted. Would you kindly state whether it would not be advisable to give preference to candidates from such schools for appointment on the clerical staff of your Bank in the same way as you give preference to candidates having banking degrees for appointment as probationers?—The clerical staff is recruited in the different localities in which we are established. We engage the best available and pay due regard to the education, commercial or otherwise, of the candidates.

7999. You suggest that young Indians of exceptional ability and possessing high qualifications would benefit by special training abroad. Are you here referring to bank employees?—Would you kindly explain what you mean by high qualifications?—Yes, I am referring to bank employees only. The high qualifications I have in mind refer to character, initiative, ability to deal with and judge men, the extent to which advantage has been taken of the bank's training and whether temperament and intelligence are such as would benefit by foreign experience.

8000. I suppose your idea is that the selection should be made by a sort of Board?—The selection would be made by the authorities of the bank.

8001. As the training would be confined to bank employees and the selection would be made by the bank authorities, the bank will pay for the special training?—Yes.

8002. You suggest that younger members of the indigenous banking families may be encouraged to join joint stock banks. I take it that it is your intention that the senior members should continue their indigenous banking business. Would you kindly tell the Committee whether there is

any competition between joint stock banks and the indigenous bankers in any line of business, and if so whether it would not affect the feasibility of your proposal?—I think there must be such competition, but I do not think that would affect the feasibility of my proposal.

8003. You say that the absence of trained men is one of the many factors to which the slow development of banking in India may be attributed. Will you kindly tell the Committee of some of the other important factors you have in mind?—The social organisation of the people which results in extravagance and debt in connection with marriages, births and deaths, the low standard of elementary education, the past history of the country which made hoarding and the ownership of land the safest method of retaining wealth, the joint family system which does not encourage personal initiative and ambition, the extent of the country, absence of big centres and the self-contained nature of the village communities.

8004. You refer to the re-organisation of the co-operative banking system on lines acceptable to the commercial banks. Would you kindly explain your suggestion a little more fully?—I would refer you to my answer to question 8466 on the Provincial Committees' reports. I do not see how the requirements of sound banking can be met unless the societies and banks confine themselves to seasonal loans repayable soon after harvest, as it is only such loans that are really liquid and can be easily watched and controlled. If this conflicts with the idea of co-operation I contend that except in very few areas the spirit of co-operation is non-existent. I do think that banks and societies of this nature may do real good whether called co-operative or not.

8005. You also refer to the "commercialising" of the indigenous banking system. Would you kindly develop this idea also a little further for the benefit of the Committee?—By commercialising the Indian indigenous banking system I mean bringing that system more into line with customs and practices of commercial banks and houses, *e.g.*, in the matter of audit and accounts, publication of certified balance sheets, use of bills and cheques, the necessity for the prompt payment and receipt of monies and the conduct of business strictly in accordance with legal requirements.

8006. You say that usance bills should be encouraged for the finance of village bankers by shroffs. Will you kindly explain whether it would be possible to identify such bills with goods either stored or in transit and if not, whether the shroffs would be able to discount such bills with banks to provide themselves with further finance, if needed?—In the absence of satisfactory documents of title, I do not think it would be possible to identify such bills with any particular goods, but if such bills were introduced and the parties thereto showed themselves worthy of credit, they would in course of time be discounted by banks.

8007. Would you kindly explain why you think bills with mixed dates of maturity would be unsuitable for use in the finance of the cultivators by the village bankers?—Because in the nature of things the cultivator must depend on sale of his crops in order to pay his bills. The sale of the crops must depend on the season, whereas the bill's maturity is fixed and renewals are both expensive and disliked by discounters.

8008. But it would not be difficult to fix the date of the maturity of bills with reference to the probable date on which the crops would be brought on to the market for sale?—You could fix it approximately, but very often the harvest of the crops varies considerably.

8009. You would always provide for a safe margin?—Yes.

8010. You say that in the case of clearing houses, the position of the Imperial Bank and that of the Association of Clearing Banks should be more clearly defined. What is the present position of the Imperial Bank in this respect and how would you like the position to be improved or more clearly defined?—Every clearing house should be controlled by a body which some usually call the Clearing Bankers' Association. This body should be incorporated and have its own rules and it should manage the clearing house in every detail; it should have its own banker as should every member. In India such a body has never been formally embodied, its functions having been largely performed by the Imperial Bank or its predecessors. There has thus been confusion and not infrequently it has appeared that other banks have regarded their accounts with the Imperial Bank as being nothing more than a part of the clearing house and a means of settling their differences in the clearing. They appear to have overlooked that in addition to the balance required to meet their clearing differences their balances should cover the work involved as in the case of an ordinary constituent and also the cash reserve which we must maintain to meet the requirements of all their constituents. In the interests of all concerned, I think Associations of Clearing Banks should be incorporated as soon as possible. Another important reason is that in its present position the Imperial Bank might possibly be held solely liable in cases where the true liability rests upon all the members using the clearing house.

8011. In regard to the development of the bill market in India, it has been pointed out by one witness that the charges for discounting are rather high at present and if they could be lowered, it would facilitate the use of bills. The following case was quoted to illustrate this point of view. If goods are sent from place A to place B and if the bank in place A has not got a branch at place B, a higher commission has to be paid to the bank at A to discount the bill, as that bank, not having a branch at place B, has to get it done through another bank to whom a commission has to be paid. It has been suggested that this difficulty could be solved if there were some arrangement between the different banks whereby business could be done by charging one commission only by the bank which first negotiates the bill and that the establishment of a clearing house for *hundis* in all provincial capitals would secure this end. Would you kindly favour the Committee with your views on this point?—Before I could express any views on this point, I should like to have full particulars of exactly what a clearing house for *hundis* in all provincial capitals means.

8012. As I understand it, a clearing house for *hundis* would operate in the same way as a clearing house for cheques if one were established at each provincial capital?—I do not think that would get over the difficulty of discounting bills domiciled in places where there is no branch of the discounting bank.

8013. *Mr. Lamond*: I think the suggestion was that the bill would be taken up by a bank with a branch where the bill was payable?—In that case I think the branch would still require some remuneration for collecting the *hundi*.

8014. *Chairman*: It was suggested that in a case of that sort no additional remuneration would be necessary. You do not think so?—No. before expressing a definite opinion, I would like to know how a clearing house for *hundis* is going to work.

8015. In the same way as an ordinary clearing house for cheques. If you prefer to think about it and let us have your views later on, that

would suit us equally well?—In that case I would like to have full particulars of this proposal for a clearing house for *hundis*.

8016. We will ask our Secretary to write to you what is precisely meant by this and you could kindly send us an answer?—Yes.

8017. *Sir Purshotamdas Thakurdas*: Is it the idea to have a clearing house for *hundis* that pass through banks alone?—(*Mr. Lamond*: Yes, *hundis* passing through banks but drawn on private parties).

So then the question of charge will remain as the bank will have to employ its staff for this business. I wonder why there should be no charge.

(*Mr. Lamond*: The idea seems to be that this work will be done by banks for their mutual benefit and accounts will be adjusted later on).

Mr. Buckley: The whole thing will be simplified by the charge being shared by the two banks that are concerned, *i.e.*, by their sharing the charges equally.

8018. *Chairman*: It has been brought to the notice of the Committee that the concessional rates of remittance given to joint stock banks by the Imperial Bank is restricted to remittance between places where the joint stock banks have branches and that if a joint stock bank has to remit to a place where it has no branch, the rates usually charged to the public are charged to the bank also. It has been suggested that this concessional rate should be given in all cases. Would you kindly tell the Committee if you are in favour of this suggestion and if not, what are the reasons for opposing this suggestion?—As regards restriction to cases where the bank has branches in both places, the intention is that this remittance facility should be given to the bank for moving its own funds from one place to another, that is from one branch of the bank to its own branch in another place and the reason for the concession is the large volume of business involved. As regards the second suggestion, the reason stated does not exist in such cases and the reduced rates would not be profitable to us.

8019. *Chairman*: And therefore this is a conditional concession, you say?—Yes.

8020. What are your views in regard to the grant of additional concession?—The reason for the original concession does not exist.

8021. May I take it that your view would be that this would interfere with the existing income of the bank and therefore would be unacceptable to the Imperial Bank authorities?—It would undoubtedly affect our position.

8022. It has been brought to the notice of the Committee by one banker that when the Imperial Bank is given bills for collection by other banks, it does not make any difference in the rates of discount between bills in respect of which the value is credited immediately and those in respect of which the value is not required to be credited until it is realised and remitted. Would you kindly tell the Committee what is your practice in this matter? If you would prefer to send a written answer to this question, that would satisfy me; I presume you may not have all the practices before you?—Normally, our charges are the same in both cases.

8023. You are aware that the Hilton Young Commission recommended that the Imperial Bank should be freed altogether from the restrictions which its present charter imposes on it as soon as the Reserve Bank is established. Sir Norman Murray giving evidence before the Commission

said that "the restriction on exchange business debars the bank from what is a very profitable business", and suggested its removal as it impaired its profit earning capacity. You also know that the Imperial Bank of India Amendment Bill which was introduced into the Legislative Assembly in 1927 along with the Reserve Bank Bill provided for the removal of this restriction on the foreign exchange business of the Imperial Bank. It has however, been suggested by one witness that exchange banking is a highly technical matter in which experience counts for a great deal more than people imagine, that the staff of the Imperial Bank is ill-fitted for such a venture and that it is not therefore desirable to remove the restriction on the foreign exchange business now imposed on the Imperial Bank. Will you kindly favour the Committee with your views on this suggestion?—I quite agree that exchange banking is a highly technical matter in which experience counts a great deal. Also that the present staff of the Imperial Bank is not fitted for such a venture, but I do not think that either of these two reasons is sufficient to debar the Imperial Bank from undertaking exchange business. I think the Imperial Bank authorities are quite wise enough not to attempt any invasion into the foreign exchange market, until they have a staff which has been trained and which has the necessary experience.

8024. *Mr. Buckley*: In answer to the Chairman you gave as one of the means by which banks in India can ascertain the standing and repute of traders, the submission of balance sheets. You mentioned that as one of the many means and therefore the Committee might think that all the means were equal. In the case of Indian firms, is it customary for them to keep their accounts in such a form and present properly audited balance sheets?- In fact we have been told by witnesses that Indian traders are very reluctant to exhibit their position and standing in such a way. Could you kindly give the Committee the experience of the Imperial Bank in regard to that point?—I admit that Indian firms are very reluctant to disclose their actual state of affairs by means of properly audited balance sheets.

8025. From your experience is it an exceptional or a general practice followed by Indians?—I think it is exceptional for Indian firms to submit properly audited balance sheets.

8026. On the question of trust receipts you propounded the method of using this form of credit. It is agreed by everybody that it is a very easy and cheap form of credit, but unfortunately we have known of so many instances in the past where the receiver of this form of credit has abused his powers and it has been suggested that in future, as a deterrent, such abuse should be made a criminal offence. Do you think it is a good idea?—I would like to consider that suggestion carefully before agreeing to it.

8027. *Mr. Manu Subedar*: Could you please give us details of Indian and European recruitment of the officer class during the last few years for each circle?—The figures are obtainable and we shall send them on to the Committee.

8028. What is the standing of the three most senior Indian officials in the Bank and when can any one of them be expected to reach the position of Secretary either in Madras, Bombay or Calcutta?—

Witness: Mr. Chairman, before I answer any of these questions I would like to ask whether they come within the terms of reference of this Committee?

Chairman: I have gone through the list of questions which Mr. Manu Subedar has prepared and which he proposes to put to you. I find that several of them do come in directly under the purview of this Committee. About others it is a question of asking for information and it is perfectly open to you to take exception to supplying any information. Some of his questions in the first part mostly refer to Indianisation and the question of extension of branch banking. They may be pertinent from this point of view. Questions have been placed before this Committee in which it has been suggested that the opening of branches already opened by the Imperial Bank and the opening of further fresh branches may not be in the interests of the development of banking in this country. On that point I cannot express an opinion. As I understand it, Mr. Manu Subedar's questions are really intended to elucidating information which he may want to use in connection with the discussion of that particular question in Committee. I do not want to give you any further hints. You may give your answers very shortly if you please, but it is a matter for you to decide.

Witness: Then, I prefer not to answer this question of Mr. Subedar.

8029. *Mr. Manu Subedar*: Is the appointment of Managing Governor made subject to the approval of the Government of India, or is it made by the Government of India? If it is merely subject to the approval of the Government of India, has the Board of the Imperial Bank ever discussed the question, or the possibility, of an Indian being Managing Governor? Seeing the intense desire of the Indian public in this direction, what would be the earliest opportunity in your opinion, when such an appointment will go to an Indian?—My answer to this is that the appointments of the Managing Governors are made by the Government of India and therefore the latter part of the question does not arise.

8030. *Chairman*: I might point out to you that your answer is not complete, because under the Imperial Bank of India Act, the appointment of Managing Governors is made by the Governor General in Council on the recommendations of the Central Board of the Imperial Bank. So far, generally speaking, the appointments of Managing Governors have been made from among the staff of the Bank. Is it not so except in one case?—With one exception appointments have been made from the existing staff of the Imperial Bank.

8031. *Mr. Sardar*: How many such appointments of Managing Governors have been made since the Imperial Bank of India Act was passed?—Six.

8032. *Mr. Manu Subedar*: Is there not a majority of Indian members on the Central Board?—The Central Board is constituted differently at various times. It is not a permanent body with a permanent majority one way or the other. There are 4 nominated members of the Government of India who may or may not be Indians.

8033. Could you tell us whether under the present constitution, the majority are Indians?—They are 6 and 6 at the present moment.

8034. *Chairman*: Would this not be a correct answer to the question of Mr. Subedar. I am only just trying to help you in the matter. Under the Act the appointment of Managing Governors is made by the Governor General in Council on the recommendation of the Central Board of the Imperial Bank. Generally speaking the practice has been that the Managing Governor is selected from among the staff in the employment of the Bank. So far the Central Board has not thought it desirable to recommend the appointment of any Indian. Would that be a correct answer to

that question?—I think the correct answer to this is, the appointments are made by the Government of India and the latter portion of the question does not arise.

8035. *Mr. Manu Subedar*: The Chairman has pointed out that under the Act the Government no doubt makes the appointments on the recommendations made by the Central Board. But the point is that the Government do not do so on their own initiative. The Central Board being constituted as it is today with 6 Indians and 6 Europeans, have they ever to your knowledge discussed the question of an Indian being recommended for the place?—These are matters which are quite confidential, and I do not feel justified in making any statement on them.

8036. Excuse me, they are largely matters of policy. I shall be obliged if you will kindly put this suggestion before your Central Board and let us know their decision on this matter?—I have no objection to mentioning the suggestion to the Central Board.

8037. Can you please supply us figures of share capital held at Bombay, Calcutta and Madras (also at Rangoon, if it is a separate centre) where the share register is kept?—I will do that.

8038. What portion of the share capital is held by Indians and what portion, if any, by non-Indians?—That will also be included in the same statement.

8039. Can you please give us the cost of salaries, and other expenses at pay office, small branch. branch at an intermediate centre and branch at important provincial centres such as Ahmedabad?—

Witness: Mr. Chairman, do you really think that this is at all relevant? I do not see how it will arise. I can understand what you have explained, but I do not agree that this is a question which should be put to me.

Mr. Manu Subedar: My object in putting this question was in connection with the expansion of banking in this country which has been suggested to us. The number of branch banks in this country is extremely small compared to the population and so far as the mofussil is concerned, India is the least banked country in the world and the idea is to increase the banking establishments in the district. The point is which is the best machinery to do so, and if the cost of the management of the Imperial Bank is high, then it is not advisable in the national interests to induce or subsidise the Imperial Bank in the policy of branch extensions. If on the other hand the cost is not very high in comparison with joint stock banks or other banks, the position would be different. The idea is only to get the relative cost of your establishment and other aspects, and I do not think you will have any objection in so doing?—The imformation is not available.

8040. *Mr. Manu Subedar*: At how many branches is the first man an Indian? At how many branches are there more than one Englishman in the staff?—I will send in a list to you.

8041. What inconvenience does the bank suffer where the work in a centre is done through an agent rather than through a branch. What are the duties, obligations and profits of such an agent? What class of people are appointed as agents? Have any agents at any small centres failed, or has the bank incurred any loss through any of them?—I think there is some confusion here. The general work of the bank is not conducted at any place by an agent in the way in which you are using the word here.

8042. He is not taking deposits on your behalf?—No.

8043. Supposing you have no branch at a moffusil centre, you utilise the services of the leading local merchant or shroff or whoever it is and you give him some kind of work and I believe some remuneration too?—Yes. That class of business I imagine is the collection of bills or cheques. We have found it a very convenient way of doing it and we have never lost anything by using that agency.

8044. How does he remit the money to you?—He can send us currency notes or he can send us draft of some bank or postal order.

8045. How much does he get for this collection?—I imagine that every agent so used makes his own charges, which must vary according to the business he does.

8046. Does the Imperial Bank make advances to joint stock banks on Government securities without any question or have there been cases when an advance was asked for and was refused? (Witness obtained Chairman's ruling as to whether this question was relevant and the Chairman in his discretion allowed it). When you make advances you select your own customer?—Naturally we would not give advances without any question. If any one including the joint stock banks comes to us we will make advances but will certainly make inquiries before we decide whether it is safe to make the advance.

8047. Have you refused such a request from any joint stock bank?—No, not to my knowledge.

8048. Have there been any cases when difference of opinion arose as regards the value of the Government securities offered?—I am not aware of any.

8049. At what value would you take Government securities when they are offered to you for an advance?—I am not aware of any differences on the subject. At current market rates with due regard for market condition.

8050. I was informed that a case did arise but I would not name the individual because we are not concerned here with specific cases. On what basis would you accept the value supposing Government securities (3½ per cent.) worth one lakh were offered to you. Would you regard it as 64,500 or would you regard it as 62,000?—We will advance according to the current market value and market conditions.

8051. That is the standard market value of the day?—Yes. You may have some kind of boom which may to-day rush it up to X and to-morrow rush it down to Y. Naturally we will not have it at X. In such cases we exercise our own discretion.

8052. What would be your reply to the charge by various witnesses that the Imperial Bank does not act as bankers' bank?—A charge! I do not think it has any foundation whatever.

8053. Do you discount their bills?—We are prepared to discount bills provided they are approved bills.

8054. What do you mean by approved bills? Do you mean to say that they should bear signatures of the bank?—No, bills approved by us.

8055. But a joint stock bank has all kinds of bills coming to it from different customers. It cannot have your prior approval?—It is our approval that is required.

8056. If you put in this clause about approved bills, you cut out a large mass of bills received by various joint stock banks?—I do not know what kind of bills they hold.

8057. Joint stock banks discount bills of their customers; those customers are not your customers. Now you say that these are not approved bills and therefore you would not discount them. Is that so?—That is so.

8058. Therefore the complaint which we have received from certain joint stock banks that the Imperial Bank does not discount their bills is justified?—I do not think it follows. The discretion must lie with the person who discounts the bills.

8059. *Dr. Hyder*: Do you lay lown any tests for the guidance of other banks as to what constitutes an approved bill in your opinion?—No. We do not attempt to tell other banks what business they should do.

8060. You do not tell them of any test?—No.

8061. *Sir Purshotamdas Thakurdas*: Is it possible for you to lay down such a test?—No, it is impossible because it varies from day to day.

8062. *Mr. Manu Subedar*: Before the Currency Commission on behalf of the Allahabad Bank it was stated that it would not do for the credit of joint stock banks to go and rediscount their bills with the Imperial Bank as it would affect their credit. Do you not know the existence of such an opinion among the joint stock banks in India?—Probably there is that fear. It does exist to some extent.

8063. What would you suggest in order to remove this feeling?—I think a little education on the part of the joint stock banks.

8064. Education is a big word. But there is nothing in the form or procedure with regard to the collection of bills, the manner in which they would be presented or the rates at which the Imperial Bank would discount them. There is nothing of this kind you could suggest?—No.

8065. Is it entirely because the existing bank managers have missed something in their training?—Possibly.

8066. When the Reserve Bank comes into existence, would there be the same feeling with regard to the rediscounting with that bank? Would the same lack of education interfere with them?—Probably it would I think.

8067. Would you as the Imperial Bank go to the Reserve Bank to rediscount your bills?—Whenever it suits us, we would.

8068. There is thus no fear that your position will be affected in the public eyes?—No.

8069. When a bank comes to discount a bill with you, do you ask for Government securities as a deposit against such an account?—I have no recollection of any such request.

8070. We had a case brought before us?—I do not know of it.

8071. Supposing the matter was referred to you by one of your agents that the manager of a joint stock bank wanted to discount a sight bill or an ordinary documentary bill accompanied by the railway receipt, would you ask for deposits of Government securities? Would you ask your agent to get Government securities before he did that work and also that it did the work to the extent of the securities?—I do not think such a thing would happen in the ordinary course of business.

8072. In the case before us woud you put it down to a dereliction of duty on the part of the agent?—No.

8073. How else would you explain the case then?—If you give me all the details of the case I have no doubt I can explain it.

8074. From the details I am giving you?—They are not sufficient.

8075. *Mr. Manu Subedar*: We had before us the Bihar Bank of Patna. They said that the Patna Agent of the Imperial Bank asked them to deposit Government securities and only to the extent of such deposit would he discount bills accompanied by full documents, bills of collection, not time bills. It would seem contrary to your policy judging from what you have just stated. Is it not?—Who is the gentleman who made this statement?

The Manager of the Bihar Bank.

I do not want to discuss the business of the Bihar Bank except in camera, and you cannot discuss it without the permission of the Bank of Bihar.

8076. Leave aside the bank of Bihar. I would ask you whether on bills accompanied by railway receipts you would as a banker of experience ask for a cent per cent. margin?—No.

8077. Would you ask that from any private individual?—No.

8078. *Chairman*: Mr. McDonald, if you prefer to give further information on the point in camera, I would be glad to hear you on the subject?—Yes, in camera.

8079. At what centres did the Imperial Bank establish branches in connection with their scheme of one hundred branches or otherwise, where there was already a branch of the Indian joint stock bank?—I will send in a list of them.

8080. Have you heard any complaints from any joint stock bank that if you established a branch of your bank in a place where that joint stock bank existed its business would suffer?—Yes.

8081. In what directions could it suffer? Could you explain this for the Committee most of whom are not bankers?—I think the case of Chandausi is typical of the effect of our opening branches at places where there are already branches of other joint stock banks. I would for the information of this committee give you the following details:—

"The Bank opened a Pay Office at Chandausi in April 1923. As an immediate effect of our opening there discount on G. C. Notes, which at times rose to 6 to 8 annas per cent., disappeared. Rates for demand draft purchases dropped from 6 to 8 annas to 2 to 3 annas per cent., and rates for advances against Grain dropped from 9 to 10 per cent. to a level with our rates, *viz.*, 7—7½ per cent. per annum. The Pay Office did not, however, receive from the merchants the support to which it was entitled. The other banks managed to retain the greater part of the business of the place by:—

(1) granting secured advance facilities far in excess of the amount justified by the borrowers' means (*e.g.*, parties worth Rs. 30,000 were given credit to the extent of Rs. 1½/2 lacs),

(2) waiving fire insurance,

(3) making payments, releasing stocks and discounting D/Ds on Sundays and Holidays.

(4) making their control of stocks merely nominal and granting advances against stocks before actually taking possession of them and against stocks in transit.

We could not successfully compete in these circumstances and the Pay Office was accordingly closed in October 1928. The closing of our Pay Office had an immediate effect on the market. Discount rates on demand bills on Calcutta and Bombay, which ruled at 2 to 2½ annas per cent., rose to 3½ to 4 annas per cent. In April 1929 discount rates on demand bills on Calcutta and Bombay rose to between 6 and 8 annas per cent. and banks' advance rates against stocks to from 8 to 9 per cent. per annum. The principal merchants thereon sought our help and on being assured of their support the Bank decided to restart business at Chandausi, working it as an Outstation, under our Moradabad Branch and a clerk was posted there in June 1929 to take charge of stocks. Our competitors thereupon again brought their rates down on a level with ours."

That of course is the way in which it affects other banks.

8082. On what basis are advances made to the indigenous bankers, shroffs, multanis and chetties with regard to (i) clean overdrafts and (ii) discounting of hundies, *i.e.*, assuming that the indigenous banker is worth Rs. 5,00,000 himself and is operating with a working capital of another Rs. 2,00,000 from the public, to what extent would clean advance be given to him and what would be the limit of discount for hundis drawn or accepted by him?—The basis of a clean overdraft is the standing of the borrower. No bank would fix a limit simply on the fact that a man is worth 5 lakhs.

8083. How much would you give to a man who is worth say 5 lakhs himself?—That would depend on what he may be safely given and that depends upon the man very largely. You cannot depend upon the amount of the working capital he has got or the amount he is worth.

8084. What would you give to a man of the class I have mentioned?—I wish to have the definite individual stated.

8085. If I put it to you that a complaint has reached us that even to a man so substantial as I have mentioned the discounting of hundis worth Rs. 30,000 to Rs. 50,000 was refused, would that be correct?—I should say that that was low, but again I say I prefer to have the individual before me.

8086. The point which we have got to consider is that from the bank's point of view it is quite correct that they should pick out safe business and it is safe to limit the hundi business to one individual to a small limit. Now the bank would probably be justified from banking principles. We are asked to recommend further facilities for these classes and we want to know whether the facilities given by the Imperial Bank are or are not adequate. If they are enough, there is no need to do anything further. If they are not, it is a very hard proposition from the point of view of the man because the limit laid down is very small?—It is not possible to judge of a limit without full details of the individual but on the figures and the information you have just stated he limits of Rs. 30,000 and 50,000 are very much smaller than we would give. The information is however not adequate.

8087. *Mr. Manu Subedar*: Your limits for hundi discounts are smaller in the case of the same individual than for a clean-over draft?—Will you define a clean-over draft?

8088. Personal credit under which he draws so much more from his current account with no security, *i.e.*, on personal signature?—He will probably get more on hundis with several names on them.

8089. A hundi is also a self-liquidating document and time-document. You prefer large advances in the form of hundis?—Yes.

8090. But the limits which you put are, I am told, extremely small compared to his own personal resources, *i.e.*, his own property, his worth?—I know that some think so.

8091. Could you, without mentioning names, send us two or three typical cases showing how much hundi you discount?—I shall do it without mention of names.

8092. Are the Imperial Bank of India happy with their relation with Government with regard to the Bank rate? What were the occasions of difference between the Government and the directors? Could you supply copies of correspondence and telegrams?—The relations referred to in this question, must be regarded as confidential and cannot give them without the consent of all parties concerned.

8093. Would you give us your personal opinion as a banker whether it is desirable for a country to have its credit and currency operations in the hands of two separate agencies? The currency operations of this country are entirely with Government, the credit operations are entirely with the Imperial Bank.

Chairman: He has already answered it in one of his written replies.

8094. *Mr. Manu Subedar*: Would the prestige of the Imperial Bank in the re-discount market in London be lower than any of the Exchange banks?—I am afraid I could not answer it. I do not think any one could until he entered the Exchange market.

8095. Do you at present enjoy any rediscount facilities in the London market?—No.

8096. But if you did, considering your standing, your great resources and your great name, there ought to be no difficulty. Would you expect serious difficulty in the re-discount market?—No.

8097. Will the Imperial Bank supply figures of the deposits of the Exchange banks with them over a series of years, bringing out the seasonal variations in such deposits?—If the Exchange banks have no objection, we would have none.

8098. Would you like us to ask them?—I would prefer that the matter be dropped.

8099. I do not want any names, I only want the total figures.

Chairman: Would it not suffice if the Imperial Bank gave us the latest statistics corresponding to what they supplied to the Hilton-Young Commission, where they have the bankers' balances, highest and lowest?

Mr. Manu Subedar: I want the figures for the foreign Exchange banks separately.

Mr. Shanmukham Chetty: It was suggested that Exchange banks were keeping a lot of money as deposits with the Imperial Bank and that if the Imperial Bank were allowed to do exchange business, the Exchange banks would withdraw these deposits as they would consider the Imperial Bank their competitor in the exchange business. In this connection it would

help the Committee to know what is the total amount of the deposits made by Exchange banks with the Imperial Bank from time to time?—I think that provided individual balances were not required, we would have no objection to send the figures later.

8100. *Mr. Manu Subedar*: What is the object of charging a commission on remittances to a customer, who has an account at two branches of the Imperial Bank, between which the remittance is made? If it were proposed that such remittance charges by the Imperial Bank should not be made, what objection would you have to it, considering that the Imperial Bank enjoys certain facilities of free transfer of funds from Government?

Chairman: This is a form of question 8474 arising out of the Provincial Banking Committee's reports and we can take it up at a later stage.

8101. *Mr. Manu Subedar*: Does the Imperial Bank handle any hundis unaccompanied by documents, which are not brought to it for discount by recognised shroffs? Does the Imperial Bank handle any hundis except merely for collection even if they are accompanied by documents?—The reply to both the questions is in the affirmative.

8102. You have hundis from your customers and even if they are unaccompanied by documents you discount them up to the limits fixed and for approved parties?—Yes.

8103. Do the agents at the various branches refuse to take hundis, which will be paid where the bank has not got a branch or a recognised agent? Could you give the Committee a list of places where the bank has recognised agents for this work, and would it follow that no hundis will be discounted by the bank or even accepted for collection, which are payable at any other centres?—We can give you the list of places where we have recognised agencies.

8104. Would you discount hundis which would be collected at any other centres?—Yes.

8105. And the parties concerned would have to pay the usual collection charges *plus* the out-of-pocket expenses?—Yes.

8106. What are the usual salaries to clerks of different grades, and the officers of different grades in the Imperial Bank? When was the scale last revised?—Is there any ground for the complaint that the salaries are unduly high?—I would prefer not to answer the question.

8107. In reply to the Chairman, you said that industries should precede the Industrial bank. We have been told that several ventures which were sound and which had good prospects have gone to the wall, because the existing commercial banks find suitable occupation for their funds in safer and better fields and there is no machinery at present for saving such ventures from going to the wall. A timely saving would be more economical to the country than the wasteful series of failures we have had. What would you say to that?—I think the saving of such industries is the proper function of private capital.

8108. You think that private bankers ought to come forward to give them the necessary finance where commercial banks cannot do it?—If bankers like to do it, they may, but I think it is more a subject for private industrialists.

8109. From the point of view of the bank the position you take up is all right, but from the point of view of the borrower there is a gap and we

are asked as a Committee to fill up this gap. The machinery of the Industrial bank is intended to fill up this gap. The suggestion made to us was that both should go hand in hand. Would you agree to it?—I am afraid I do not agree with it in the pioneering stage to which I understand you refer.

8110. *Chairman*: I think I put the precise stage in one of my question I shall give you a specific instance. The promoters of a tea garden at Jalpaiguri managed to raise 10 lakhs of rupees. Having raised that money they got the land and then conducted the initial development. Then they found that they wanted another 5 lakhs to establish a tea factory. Their submission to us was that under present conditions they found it very difficult to raise those five lakhs from any lending authority or bank or people of that sort. Private capitalists do not, generally speaking, come to their help at that stage. They urged that this Committee should at any rate explore as to whether some other avenue could not be created for affording facilities to concerns of the class I have mentioned at that juncture?—If you take the specific instance mentioned, I should describe it as an industry which is under-capitalised, and such an industry is not a fit one to go to an industrial bank. They must put up their own capital for block, etc.

8111. Also working capital, until the stage of production is reached?—Yes.

8112. That is practically the answer you gave me and you adhere to that view?—Yes.

8113. *Mr. Manu Subedar*: You said that deposits for five and seven years were unsatisfactory and with regard to debentures, your suggestion was that 20 to 25 years would be a more suitable period. Was that not so?—Yes.

8114. You are aware that in the United Kingdom several Industrial concerns issue a five-year note or bond and utilise that method for securing additional finance. Is there any difference between the conditions in the United Kingdom and here?—I do not know the terms under which they issue these five-year bonds.

8115. They are issued as bearer bonds for five years on the security of the block of the company and there is a mortgage for five years?—I am afraid I cannot criticise it unless I know the nature of the business and the full terms of the bond issued.

8116. Is the Imperial Bank holding a large number of debentures of any kind as part of their investment in this country?—We have the debentures of local authorities, *e.g.*, Port Trusts, Municipalities, etc., but not of joint stock companies.

8117. If I told you that most of the debentures of joint stock companies issued in Calcutta and Bombay were not for 20 or 25 years but for 7, 10 or 15 years, would you be surprised?—Yes.

8118. We had a great financial authority from Bombay who is handling money running into many crores and he gave his opinion that the most suitable period for raising debentures was from 7 to 10 years?—But did he say that the Calcutta debentures were for 7 to 10 years?

8119. I suggested about Bombay; I do not know about Calcutta. We had another expert who also gave it as his opinion that the most suitable period for a debenture was 7 to 10 years. You are also a great authority, but you say the period should be 20 to 25 years, could you tell us your

reason why it should not be a shorter period?—Debenture capital is usually additional to the share capital; it is in the nature of a permanent issue of capital. I think that most companies which issue debentures hope some time to pay them off, and I think that most people would consider it highly improbable that they would be able to pay them off under perhaps 20 or 25 years.

8120. But it would also depend on the willingness of the market to take debentures. If the market was frightened with 20 or 25 years' run, and if it was more willing to do 7 or 10 years, I suppose the borrower is more or less handicapped, even if there is the advantage in the longer period?—Of course the buyer and the seller have to come to terms.

8121. Even if the borrower is keen on a longer period, the underwriter might say that unless it was for such and such a run, he would not underwrite?—He would consider that no doubt.

8122. With regard to investment trusts, I was much interested to learn from you that investment trusts would be safer if they operated in a wider field?—I do not think you can read that into my words. I said they operated very often in the world-wide market.

8123. By 'world-wide' you meant more than one country?—Yes.

8124. No investment trusts actually operate world-wide in the sense of taking all countries, but they operate in more than one financial centre?—Yes.

8125. I have before me the advertisement of the First Mortgage Co-operative Investment Trust Limited, 7, Pall Mall East, London. This is one of the Investment trusts registered under the Industrial and Provident Societies Act of the United Kingdom and I daresay there are many other trusts of that kind registered in the United Kingdom under that special Act. They are exempted from Income-tax and assisted in various ways. Would these trusts operate very far afield?—These investment trusts vary from a first class investment trust to a so-called trust which is merely an operator in shares on the Stock Exchange, but I do not know what this particular trust is.

8126. So there are several varieties of Investment trusts which do not operate in more than one market and they need not be world-wide?—That is so.

8127. In India there are many industries and there is a large variation at different centres and if an Investment trust were set up, the conditions would be sufficiently diverse to enable them to beat out the risks?—I think so.

8128. So that there is nothing inherently impossible in the success of an Investment trust if it operated in India alone, provided it went to the Punjab, Burma, Calcutta, Madras and so on?—No.

8129. With regard to the preference which the Indian investor has for share appreciation and therefore the reluctance which he has for taking up debentures, would you tell us whether in India the amount of total share issued in its relation to debenture issue is much smaller or much greater than similar amounts in any other market, say London?—I cannot express any opinion on that.

8130. I put it to you that the largest issues are shares, the debenture issues are comparatively smaller?—I understood that you were comparing the conditions in India with London.

8131. I only want to know whether there is any serious difference in the mentality of the Indian investor with regard to debentures and shares and whether human nature is not the same all over the world?—I think my answer implies that.

8132. That there are many more people in the world who want appreciation of share capital and who would not therefore go in for a stock which is given for guaranteed interest, but which would not appreciate in capital?—As far as I remember, the question was whether this was peculiar to India or not, and I said it not peculiar to India.

8133. You take a pro-note on every loan?—Yes.

8134. And a pro-note implies that you have a claim on the assets of the man who signs the name?—Yes.

8135. It is not a secured position, but it is a general position?—It is not a specific claim. We have the right to demand payment of the note, but we cannot attach any particular asset.

8136. In addition to that, you take hypothecation of the stocks which is a specific right?—Yes.

8137. I put it to you whether it is reasonable to ask further for a third party's guarantee?—Except that under the Bank Act hypothecation is no security.

8138. Under your Act hypothecation is merely an additional collateral security?—Yes.

8139. Therefore you take two names and it is the second name on the promissory note which you call the guarantor?—Yes.

8140. There is no third party?—There may or may not be.

8141. When you get the joint stock company and the Managing Agents and when you get the hypothecation of stock, that is enough for you—Yes.

8142. There, your claim is specific to the extent of the stock and the general claim on the entire wealth of the managing agents as well as on the joint stock company?—Yes.

8143. It has been put to us that this is very restricted finance, that is to say, compared to the total worth of the signatures and so on, the amount advanced by you is not large enough?—Yes. I understand it has been stated but of course we must be the judge of what is fit, and due regard must be paid to other liabilities, if any.

8144. This is done by you for the Bank's safety which, I take it, is the primary consideration with you, but from the point of view of the borrower there is some room for complaint?—I think you will find that in the majority of cases, what we call the drawing power against this promissory note is regulated by the stocks hypothecated to the bank which is what the borrower requires.

8145. Supposing a managing agent was worth two lakhs of rupees, his signature is nothing, but if the actual stock hypothecated is worth 5 lakhs, you allow for a 25 per cent. margin and advance only to that extent?—Yes.

8146. You take therefore no account of the credit of the man who signs the pro-note?—We do, that is why we give the money. As I explained, hypothecation is no security, it is not admissible under the Bank Act.

8147. *Mr. Manu Subedar*: In cases where loans are not paid up you still take charge of the stock and then it ceases to be hypothecation. You may call it collateral but still you have a specific charge on the same, is it not?—Yes.

8148. In making loans on two signatures and on hypothecation you keep generally a margin of 25 per cent.?—Yes.

8149. Have you ever made appreciable losses on loans of this kind at any time?—There have been some cases of loss, but it is rather difficult to recall whether the number is appreciable or not. It is a very good form of business.

8150. From the borrowers' point of view the complaint is that the amount of advances that you make are extremely limited and I would request you to give your ideas on that?—It frequently happens that borrower's point of view differs from that of lender. We are operating under the Bank Act and we pursue all safe lines of business, our experience in the past has proved that we have been keeping ourselves on safe lines and meeting borrowers' reasonable demands.

8151. Similarly about advances on industries—and you gave us a list of industries which you are advancing—I presume you follow the same practice in making your advances?—Yes, we are also discounting their bills for them.

8152. What sort of bills are they? Do you discount any bills in Bombay against the sale of cloth in Bombay to an up-country dealer. I suppose you do not do that class of business?—I do not know whether it is done in Bombay, but Mr. Lamond will be able to tell you more about that. So far as Calcutta is concerned it is quite common for the Imperial Bank to do so.

8153. Then you also give loans?—Yes, for periods of from one to three months. Many of them have also got clean overdrafts, whist to others we have advanced on the mortgage of Government securities. All these forms are used in assisting industries.

8154. May I take it that you are able to occupy all your funds in this manner?—Generally speaking and allowing for our security holding and cash balances, you can take it to be so, at present our cash amounts to something like 28 per cent. of our liabilities.

8155. That might be due to abnormal conditions?—That is so.

8156. And there are many people who apply for loans but fail to get the same from you?—Yes, if we do not consider it a proper form of investment we do not grant loans on such applications. We also supplement our resources by other means whenever there is a need for the same.

8157. In what ways?—By raising your deposit rates, I suppose?—Yes, we do that also.

8158. Because you have no other means to raise funds as other Central Banks in foreign countries except under the Currency Act in regard to the inflation of currency?—We can also sell our investments consistent to what we consider to be a safe margin of cash.

8159. You dealt with the legitimate functions of banks. Would you consider businesses like clearing goods from the docks or warehouses or rail, auctioning, foreclosing and such other agency business proper functions for a bank to perform?—Do you mean the general clearing and forwarding agency business?

8160. Not the general business, but just rendering such service to your customer up-country in order to avoid the charges of middlemen?—I think that would ordinarily fall to the lot of the Exchange Bank.

8161. It will equally fall under the purview of an Indian bank. Take for example a merchant in Bombay who sends goods upcountry where your bank has a branch. If the goods arrive in a damaged condition, would your bank agent at the other end do some service for the consignor?—I think he would first see whether the consignee of the goods had performed his ordinary business and taken delivery. Primarily it is the buyer's duty If he refused to do it, naturally he (the bank) will protect the interests of the consignor, provided the relative bills are in the hands of the Bank.

8162. Under normal conditions you would not consider it proper for the bank to do the clearing and forwarding business from the port into the interior?—No, not unless the bills are in the bank's possession. Even then, I think the bank will employ a forwarding agent. The bank would not employ its own men to do this work.

8163. And the bank would also deal with the steamer companies, the insurance and the railway companies and if the party at the other end refused to take delivery of the goods, the bank would store the goods and sue the party for it. Is it not?—I think the bank would care for the goods relating to the bills in its possession and take legal proceedings as instructed by the consignor.

8164. With regard to foreign banks operating in this country you said you were in favour of applying to the foreign banking companies the same law as applies to the Indian banking companies in so far as it should apply to foreign banks. You know that it cannot be applied to the foreign banks with regard to the publication of balance sheets?—I am afraid I cannot discuss the position of foreign banks under the Indian Joint Stock Companies Act with any detailed knowledge.

8165. At present no Indian law applies to the Exchange Banks?—Well, I do not think that is so.

Mr. Buckley: Yes, there is something in the present law by which we have to furnish some particulars.

8166. *Mr. Manu Subedar*: Would you desire that the foreign banks working in this country should publish full particulars of their operations in this country?—In my written evidence I have said as much as I wish to in regard to this matter. My point is that before you legislate to control the foreign banks very careful consideration by a competent body is required, but I agree they should submit annual statements showing their Indian business.

8167. In reply to the Chairman you said you were not in favour of any restrictions on the foreign banks in connection with the issue of licenses?—Yes, I said, that with reference to the deposits.

8168. There are two considerations which have been put before this Committee in connection with these deposits. One of them is that Indian institutions have a prior right to the savings of Indians in this country and that something should be done to divert the whole or a portion of the deposits going into foreign Exchange Banks at present. What is your view on this?—My answer is this. The result would be that the Exchange Banks would have to transfer funds borrowed in other countries and/or borrow from the Imperial Bank of India to replace the Indian

deposits which they now have to the extent required for their exchange business. Exchange operations would be hampered considerably, and the higher cost of funds would possibly necessitate increased exchange margins. In as much as foreign funds were brought in, the interest on them would leave the country. Their finance of internal trade would be allowed to decrease as they would not bring in foreign funds or borrow to any great extent for this purpose. The shroffs, merchants, etc., who are now financed by the Exchange Banks would have to go elsewhere for the majority of their finance and the deposits formerly taken by the Exchange Banks would also be diverted to other banks. Owing to their very high financial standing and their very strong balance sheets the Exchange Banks are able to borrow their funds in India at low rates of interest and correspondingly low rates are charged to the shroffs and the merchants. The Indian depositors place their funds with the Exchange Banks and accept the relatively low rates offered as they are satisfied that their deposits are quite safe and they would be unwilling to place them with banks on which they do not place so much reliance except at higher rates and to a large extent not at all. Probably the only non-exchange bank which could attract the bulk of their deposits is the Imperial Bank of India and the prohibition would give that bank a semi-monopoly. In as much as funds were deposited with other banks at higher rates the cost of finance to the shroffs and merchants would increase correspondingly and trade would suffer.

8169. Which trade you mean, internal or external?—We may safely assume it to be both.

8170. The other consideration that has been put to us is that from the point of view of the depositors that several strong foreign banks are coming in and will come in the future also because India shows an open door. Moreover there is some danger to Indian depositors placing their money indiscriminately in foreign institutions. Have you anything to say on this?—I have stated that the banks should be licensed.

8171. A license would only enhance the danger because the ordinary depositor will think that it is safe to invest in such licensed banks, but all the same the affairs of the bank will not be known in this country?—I presume the license will not be given unless it is known.

8172. Would you give the licensing authority the power to look into the finances of these banks?—These banks will have to provide some information which the authorities require.

8173. Such information can be only periodical and much can happen during the period. Is it not?—That is so.

8174. With regard to the license which you say, once given should not be taken away, you know that under the Canadian Bank Act the Minister in charge can revoke a license once granted without assigning any reasons whatsoever. Would you give that power to the Government of India, *i.e.*, to the Finance Member?—I must study the Canadian Act more carefully before I can answer that question.

8175. You said in answer to the Chairman that owing to dearth of suitable candidates you had to recruit candidates from England. We have had evidence from your directors and other parties that the Indians who are already in your employ are doing very well?—Yes.

8176. Do I take it that obviously the number of Indians that you had been taking from time to time is the maximum number of suitable

men that you are able to recruit in this country and for the balance you naturally have to go to England?—Obviously the number of men becoming available under any scheme must be small at first and increase gradually. I have already answered the point in reply to the Chairman and I have furnished a statement wherein I have given details of recruitment.

8177. My point is that in 1927 you took 2 Indians and 3 Europeans, in 1928 you took 5 Indians and 8 Europeans. May I ask whether because you were not able to get the 6th man (an Indian) out of your searches, you had to go in for a European?—We made searches which were very satisfactory to us.

8178. You said the Clearing House should be managed by banks who are members of the Clearing House. As things are at present, the majority of these banks who control the Clearing House are foreign banks?—Yes.

8179. A complaint has been laid before us that the foreign banks are dead set against Indian banks being admitted to the Clearing House. Is that within your experience?—I have heard of such complaints.

8180. What have you to say about it? You know that under the Canadian Bank Act there is a Bankers' Association there, and there are similar associations in other countries, and the rule there is that only those banks that are registered in that country can become members of that Association and no others?—I know of that provision.

8181. Is there any objection to India following this rule?—At the present moment the Clearing House is constituted by original members who form that Clearing House. It is their business entirely.

8182. It has, at present, not been formed under any legal arrangements. If a law was enacted governing the regulation of banking in this country and if that law prescribed who shall be the members of the Clearing House, then would that not cover the point? Is there any inherent difficulty in India following such a practice?—I do not think there will be any difficulty; but I am of the opinion that you cannot prohibit the members of the present Clearing House from meeting together.

8183. Nobody could object to their meeting outside the Banking Association?—That is so.

8184. *Mr. Devadhar*: I will put to you a few questions bearing on Co-operative Banking. I think you know it very well that the services of the Imperial Bank have so far been appreciated generally by all those who deal with the Co-operative Movement. I shall read an extract from the Report of the Townsend Committee on Co-operation in Madras. They say, "The Imperial Bank rendered valuable services in the past to the Co-operative Movement and we understand that it is willing not only to continue the facilities which it now gives to the Co-operative banks, but even to afford additional facilities if necessity arose". If this statement is common to Madras, I believe, it is applicable equally well to other parts of the country wherever there are Co-operative institutions and the Imperial Bank?—It is the definite policy of the Imperial Bank to promote the welfare of Co-operative institutions and we have said that we consider it part of our duty to do the best we can to see that the Co-operative Movement progresses on good lines.

8185. *Mr. Devadhar*: On page 145 of their Report the Bombay Committee say, "We may refer here to the complaints which we received from more than one Co-operative bank about the difficulties put in their

way by some branches of the Imperial Bank of India regarding remittance of funds." This is more or less the burden of some of the complaints that are now heard against the Imperial Bank. I can read out to you from the evidence of Sir Lalubhai Samuldas before the Bombay Committee which says "I would go a step further and state that, if not in all centres, at least in centres where there are no other banks in existence, Co-operative banks should be allowed free transfer of funds even for exchange business within certain well defined limits. This will promote banking development in outlying areas, extend remittance facilities for the general public and educate the small man in the handling of modern instruments of credit." I believe you have listened to these complaints; is there any ground for them?—There have been occasions in which we have found that the free remittance of funds by the Imperial Bank to Co-operative banks has been used for purposes for which it was never sanctioned. We have drawn the attention of the authorities of the banks and of the Registrars of societies in the particular provinces without effect; they have taken no notice. We tell them the way they should go, but they have ignored our advice. So the course adopted by us is the best left to us. As I have said, these free remittances were sanctioned by the Government of India for certain definite purposes but they were used for other purposes; and in this matter we take our stand on the ruling of the Government of India under which free remittances were given.

8186. In the course of your written statement and also in answer to a Chairman's question you said that the Co-operative banks should not go out of their proper sphere and do the business which we do not consider Co-operative business. Could you tell us what that business is?—I have answered the point already in reply to a question from the Chairman and I would suggest to you that you should leave it at that for the present.

8187. *Mr. Devadhar*: I will read out to you a passage from the speech by my colleague, Mr. Ramdas Pantulu whose absence today I very much deplore; the speech was delivered at the seventh Co-operative Conference in Madras, and this is what he said, "The proportions which the Movement has attained, the expanding tendency of its life and the steady accession of national workers to the ranks of informed enthusiasts in Co-operation, have all begun to tell and to create a stir in certain interested quarters. Today the atmosphere and environment are by no means quite conducive to hasten an all round development of the Movement. The desire to nourish and invigorate the growth of the tender plant of Co-operation by means of special facilities is fast giving place to a resolve to deal with it at arms length and to rank it with competing and profiteering commercial banking enterprises. The Imperial Bank has definitely ruled out agricultural paper as cover for financial accommodation particularly for purposes of fluid resources, and twenty per cent. of it has already been scrapped; the total extinction of it is only a matter of short time, say four years at the most." Is that the position?—The most important part of this speech so far as the Imperial Bank is concerned, is the statement made, namely that the Imperial Bank has definitely ruled out agricultural paper as cover for financial accommodation. Well, that is not so; we have never done that.

8188. You have mentioned in one of your answers to the Chairman that there are certain considerations which guide you and you have

certain qualifications which you generally expect from a candidate who offers himself. Has it ever occurred to you that you might select for one of the higher posts at the head Office or at any of the branch offices a man who has had some good grounding in Co-operative principles, so that whenever there are Co-operative proposals before you, you might have his advice?—No.

8189. Do you think it would be an advantage to do so?—I do not think so.

8190. You recruit every year about 30 to 40 people on an average?—Not so many as that; on on average it is about 16.

8191. My point is, do you not consider the expansion of the Co-operative Movement such an important factor in the development of the country's economic life as to justify the selection of a Co-operative expert on your staff?—I think we have met that point by giving the Co-operative Movement a careful study.

8192. *Dr. Hyder*: Mr. Macdonald, in one of your replies you indicated a preference for investment companies or trusts for the financing of industry. Is that not so? I think you said that you would prefer to have investment companies?—I think it is time for a beginning to be made with investment trusts and industrial banks.

8193. Are you aware that a criticism is levelled against these investment trusts in England that there does not exist the kind of intimate relationship which should exist between banks and their customers? Is it not true of India? I would make my meaning clear by reading out to you what occurs in the "Economist" for March 1, 1930. I hope you are a constant reader of this weekly. It says:—

> "Of recent years a crop of so-called "trust companies" and finance houses have sprung up to fill the gap in the City system, but they have not the permanent interest in the well-being of their industrial customers, nor have they for the most part the standing and financial backing, to enable them to pay anything approaching the part played by the leading joint-stock and private banks in industrial finance in Germany".

Do you agree with that opinion?—Of course in recent years there has been a crop of these so-called investment trusts which merely operate very often on the Stock Exchange and I think these remarks apply to them.

8194. Does there exist this intimate relationship?—Yes, the authorities controlling the original investment trusts were men of high standing influence, knowledge, and business connections and they invested the money which came to them in the various companies of which they had an intimate knowledge. That is the original investment trust company.

8195. What is going to be the relation between this sort of original investment companies which you have in mind and the purely commercial banks operating in this country, supposing the former were established?—I think that must be for the future to show.

8196. *Dr. Hyder*: May I bring to your notice in this connection the experience of other countries? "Industrial organisation and re-organisation, however, is on its financial side largely a question of investment banking, and experience in two highly-developed industrial countries,

Germany and America, goes to show that a connection, or at any rate close co-operation between commercial and investment banking is of great value to industry. The principal American banks, indeed, excluded by legislation from engaging directly in issue and financing business, have created so-called "security companies," to carry out the type of transaction in question. The security companies work closely together with their parent banks so that the net effect is somewhat similar to that of the German system ".

My point is that unless these investment companies were strongly supported, they would not be a success. Do you think I am right?—I think you are probably right. There must be an intimate connection between any trust companies that may be started and the existing commercial banks.

8197. *Dr. Hyder*: It is purely the English commercial banking system in which the banks played a very large part as regards commerce. Here the needs are of industry and agriculture and do you think we are right in adhering too closely to such a model in view of the fact that conditions are different in India?—Yes, I do.

8198. But other countries in Europe have changed the model in view of the circumstances prevailing from time to time and my question is whether you would not have what is called a system of mixed banks, that is to say, banks performing various functions?—I think the German system, some times referred to as the Continental system, is probably what you have in mind. That system has grown up gradually to meet the peculiar conditions in German history. I am not an expert in German banking, but I would refer you to "the Foreign Banking System" by Parker and Willis, which gives a short history of German banking. I think the book will explain that the system which prevails in Germany has been copied in other Continental countries but I doubt that the conditions which have made the system an apparent success in Germany exist in India.

8199. Do you think we could copy that system for India? Is it advisable and practicable?—I do not think so.

8200. Regarding investment companies, supposing your suggestion were adopted, would you restrict the operation of such companies to the confines of this country or would you give them entire freedom to invest their money, say in Mesopotamia or Persia?—I should leave it to the discretion of a board, as I indicated in my first answer. If you get the man capable of doing it, he may invest anywhere.

8201. Naturally, he will invest it where the yield is the highest. The objection to these investment companies in England is that they know more about Brazil and South Africa than they know about Bradford and Bury. Would you restrict the operations then?—No.

8202. Coming to the Indian agriculturist, I take it that you have his welfare at heart?—Yes.

8203. He cannot come to you for any loan as things are at present?—He can. We have definitely instructed our agents in various parts of the agricultural districts that they are to encourage the small man and as an indication of what I meant by a small man, I mentioned the Rs. 2,500 advance.

8204. Let us get away from the Rs. 2,500 advance and come to the bedrock of security. The only security he can offer is his name?—No, he has his crops.

8205. Have you started a system of lending on gold ornaments?—Yes.

8206. From your experience of men and affairs in this country you know that the ornaments which the Indian agriculturist possesses are not of gold, but of silver, are they not?—I do not think that is so, they are generally of gold, in some parts of the country they are of silver.

8207. Have you any limit below which you will not advance on ornaments?—We do not advance below Rs. 100.

8208. I take it then that you are lending to some extent to the cultivator on the security of gold ornaments?—Yes.

8209. In view of the fact that some part of the ornament holdings of the Indian cultivator is in silver do you think it would be practicable for your Bank, taking all factors into account, to give the option to him of taking an advance on the silver ornaments?—No, I would prefer not to do so. If you have watched the price of silver, you will know that it varies considerably.

8210. At present it is 18*d.* per ounce. Suppose the price of silver did not drop, would you be prepared to advance to the extent of half the value of the silver ornaments? Do you not think that you would be conferring a benefit on the small man with his small means if you allowed an advance against the security of his silver ornaments, although there might be some trouble in the beginning?—The great majority of the people of this country of the class you refer to put their savings in gold. There may be, and certainly are, a number who have them in silver, but we do not regard these silver ornaments as suitable securities for the advance.

8211. But the traditional banker has no scruple as regarding lending on silver ornaments?—I do not know of any other banker who advances on them. Such business seems to me to be more suitable for a pawn broker than a banker.

8212. If you were to come down to meet the needs of the small man who after all constitutes the bulk of the people here and went away a little from the notion of pawn-broking, etc., and advanced him on the security of the few silver trinkets he may possess, do you not think that you would be making conditions easier for such a man?—There is no doubt about it, but the point is whether it is suitable business; and, there is a limit, beyond which business ceases to be remunerative.

8213. Suppose you fixed one year's limit and a mimimum of Rs. 50 and only advanced to the extent of half the value of the ornaments, do you not think you would be conferring a benefit which would be in the position of being twice blessed?—I think we had better leave it at that.

8214. I notice that in the scheme appended to your memorandum you do not allow accumulation of leave as regards the 2nd grade Assistants?—That is so.

8215. What is your reason for that?—The reason is that we wish our staff to take their leave every year in the interests of their health.

8216. I understood from an answer, which you gave before, that you would prefer some of your brilliant young Indians on your staff to go abroad. Suppose you altered this rule and allowed privilege leave to accumulate up to three or six years and allowed them to go on study leave,

gave them full pay for six months and full pay or half pay for the remaining period of six months or a year. Do you not think that the introduction of such a system of study leave as regards bank employees would bring a breath of fresh air into India?—I think that a man who works for six years or three years without any leave will probably be ill at the end of that period.

8217. But may I bring to your notice that some institutions in India do have a system of study leave. If you really wish that your second grade Assistants should be conversant with what is going on in the United Kingdom, would you object to the introduction of a system of study leave?—It is very largely a matter of expense.

8218. I understood you to say that the selection of these brilliant young men would be in your hands and that the expenses would be borne by you?—That referred to specially selected men.

8219. In view of future developments that might happen in India, you do not think that the staff working under you should be prepared to take on any duties?—I think we have gone far enough in these rules as they stand at present, and I think that these rules and the training which our men are getting will provide all the staff we require.

8220. It may be that you may expand in the direction of exchange business, in the direction of industrial financing, etc. In view of future possibilities, do you not think that the system of study leave would find your staff better equipped to cope with the new duties?—I do not think so.

8221. *Mr. Lamond*: There is at present a lot of misunderstanding in regard to banks advancing to industrial concerns to provide working capital. It has been said that it is extraordinary that banks should not allow their constituents to draw more money than the value of their liquid assets, notwithstanding the fact that the guarantors are very wealthy men. Would you kindly clear up this misunderstanding?—I think I made it clear. I think one of the accounts which was referred to was the cash credit account; a cash credit account with a promissory note signed by the borrower and secured by hypothecation of stocks. That account is for the purpose of financing those particular stocks and the drawing power, *i.e.*, the amount which he may draw on that particular account, is limited by those stocks. If the borrower or his guarantor wants any additional facilities, they can be arranged on terms by his approaching the bank.

8222. *Mr. Manu Subedar*: I had a specific case in mind in which I myself was the party arranging it with the Imperial Bank. It was a textile concern with a reserve of over a crore of rupees and the Agent's signature was at that time worth about 2 crores of rupees. These two signatures were given and the cash credit given by the bank was Rs. 20 lakhs. But next year they would not raise it. My idea was that compared to the amount of security taken by the bank, the amount of credit raised was extremely small. That is to say, you take no account of the genuine worth of the two signatures but go on mechanical rules?—As I explained, the limit on that account is the value of the stocks. But if the limited company had a reserve of one crore and the guarantor was worth 2 crores, they would appear to eligible parties for bank advances.

8223. They wanted to raise more money and it was not allowed by the Imperial Bank. I am speaking of a specific case in which I was myself concerned?—We would want full particulars of that case.

8224. This is a sort of general case and a very exceptional case. But you would not say that most of your cash credits are on this basis?—I say that the drawing under the cash credit would be limited by the value of the stocks. If wealthy corporations and individual guarantors want more money and are in the position which you indicate, they would have no difficulty whatever in getting it in some other form.

8225. Cash credit limits are generally screwed rather low?—The only limit is the value of the stocks subject to the credit arranged.

8226. *Sir Purshotamdas Thakurdas*: It strikes me that there may be a little misapprehension on the part of Mr. MacDonald. I do not think that in the instance quoted the party was prepared to hypothecate his stocks at all.

Mr. Manu Subedar: He was not. We gave a declaration that the first lien on the stock would be the Imperial Bank's. It is a form of assurance.

Sir Purshotamdas Thakurdas: Not necessarily. There may be deposits from outside. If there was a borrower with a reserve fund of a crore of rupees and the Agent's signature was worth two crores and if he offers the stocks as hypothecation, he would get from the Imperial Bank 50 lakhs against the stocks, but if he wanted it on the plain signatures of the two parties, it is a different matter.

Mr. Manu Subedar: We got 25 lakhs of rupees from another bank next year.

Sir Purshotamdas Thakurdas: If it is made clear to the witness that the party was not prepared to hypothecate the stocks, he may be able to give you a definite reply.

8227. *Mr. Rushforth*: Referring to the question of sending your men abroad, I think you will probably agree with the statement of the Indian Institute of Bankers who say:

> "There are better opportunities for Indians to get a sound training in India than in England. An Indian student passing the London or Indian Institute of Bankers examination, with a few years' practical training in India would prove to be more efficient in and better qualified for his work than one who works in a branch office of a London bank and returns with the idea of having received special training outside India".

What exactly do you mean by special training abroad?—In fact what I had in mind was that a specially selected man (and I gave the qualifications of such a man) should be sent abroad and all the influence of the Imperial Bank and its various Governors used to give that man the best experience possible in the highest branches of banking.

8228. That would not necessitate his going into a bank abroad?—No.

8229. Suppose an ordinary Indian joint stock bank wanted to send some of its men for training. Assuming that the difficulty about expense could be got over by Government assistance because Government might be prepared to consider special scholarships for any such brilliant young men, do you think there would be any practical difficulty in arranging for the men to get this experience abroad?—I think there would be great difficulty. It is very much a matter of influence. Men do not teach other people their business and the best parts of their business to any one who comes along and asks for it.

8230. I take it that the Imperial Bank would be prepared to give assistance if they send their own men. What would be your attitude towards a specially selected man from somewhere else assisted by Government?—I think Government should provide the introduction.

8231. It is a matter of getting the necessary introduction. That is what you had in mind, not so much his actually working in some bank as an employee?—No.

8232. In reply to one of the questions, you said you would prefer not to express an opinion on the conversion of the Imperial Bank into an industrial bank. It has been said that the Imperial Bank is prevented from giving assistance to industries owing to certain legal restrictions on its operations. Would you have any objection to the modification of these restrictions, so that the Board of Management would have discretion at any time, say, to start an Industrial department of the Imperial Bank? Or, do you think that these restrictions are salutary?—I think the Imperial Bank in its present position is a hybrid institution and that the present restrictions are sound and should not be modified in the way you suggest.

8233. *Chairman*: When a Reserve Bank is established, if it is established, would you agree to the enlargement of the scope and functions of the Imperial Bank as contemplated by Mr. Rushforth?—I think I said before that personally I would much prefer that these two functions should be exercised by separate bodies.

8234. *Sir Hugh Cocke*: You have been connected with banking for many years in this country and I take it you have seen very great development in the time that you have known India?—Yes.

8235. Do you consider that steps might be taken to bring about a more speedy development of banking?—I would rather deprecate any haste whatever in the development of banking?—Banking will come and will develop as trade develops if you let it.

8236. Further development very largely depends, I suppose, on further education of the people and the attraction of deposits from people who have possibly hoarded wealth to-day?—It will depend on education.

8237. Is not the future development of banking habits mainly a question of education?—Yes, it is very largely a question of education.

8238. As regards industrial banking and the question of capital, it has been suggested to this Committee that Government might guarantee 6 per cent. debentures. It has been pointed out that what an Industrial bank would really require is free capital. If 6 per cent. debentures were raised, it would mean lending that money out to new industries at 7 or 8 per cent. which would cripple those industries and make it difficult for them to prosper. What is your idea about the question of capital, should an Industrial bank be established?—I imagine the 6 per cent. mentioned is rather misleading. In the first place, I think the Industrial bank would probably start with a very large share capital and having invested that capital in existing industries, generally it would acquire certain assets. I presume then that if it wanted more capital it would issue debentures. It would not be necessary to charge 7 per cent. to industries because of the 6 per cent. debentures.

8239. But how would you get your initial capital?—The public would not subscribe without some sort of guarantee. Would they?—They have in the past. If they get the right man at the head of affairs at the proper

time and you have the proper directorate, I do not think there would be difficulty.

8240. So that you would not recommend at the start any Government guarantee?—I do not like Government guarantees, a well founded concern should be able to do without them and there is the danger that they may be used to prop up an unsound one.

8241. *Chairman*: Your point is that you do not like Government guarantee of interest on the share capital?—Yes, and dislike a guarantee of capital as much.

8242. *Sir Hugh Cocke*: On the question of individuals who have attacked banks, as you know, Judges have recommended that cases should not be brought against banks without some preliminary enquiry. A suggestion to that effect was made by the Chief Presidency Magistrate the other day, and a Chief Justice has made a similar suggestion before. I think in your memorandum you have said that it is difficult to legislate against a thing like that. But you would consider that some form of preliminary enquiry might be desirable to help banks in future?—I understand that at present when a case of that sort takes place the complaint goes to a magistrate and the magistrate actually conducts an enquiry before the matter goes any further. I entirely disagree with the suggestion that it should be held *in camera*.

8243. In other words, there should be no preliminary enquiries *in camera*—Yes.

8244. *Sir Hugh Cocke*: On the question of raising debentures by an industrial concern which has been discussed today, I take it whether the period should be 10, 20 or 25 years would very largely depend on circumstances. One can concede that it is a question of borrower and lender coming to terms; but if the borrower wants to raise a debenture issue and to provide for the repayment of that issue out of the profits, then naturally a short period would be impracticable?—Yes.

8245. It is all a question of how soon a borrower can create a Reserve fund to take the place of debentures?—Yes.

8246. *Mr. Jadunath Roy*: With reference to finance of jute in the mofussil you said in reply that this is a matter of storage. Do you refer to suitable godowns or what is it?—It is very largely a question of godowns, and the manner in which jute is stored in them.

8247. In the mofussil godowns may change hands and still you would not make any difference? In the mofussil I may be occupying a godown this year and next year you may be occupying the same and in that case you would not differentiate. Will you?

8248. *Mr. Sarker*: Mr. Roy's point seems to be this. The same godown may be hired by Ralli Brothers this year and next year by Mr. Jadunath Roy and you say generally Europeans are better in this respect. Mr. Roy's point is why should there be any differentiation?—I agree there should not be any differentiation. There is none in such a case so far as godowns are concerned.

8249. *Mr. Jadunath Roy*: If these godowns are covered by insurance, then I do not see any reason why you should make any difference?—It is all a matter of opinion and you are not sure that you are going to get your insurance money.

8250. Why not if you insure with a good insurance company?

Chairman: Would it not be necessary to establish that the goods that have been insured have actually been lost?—Mr. Roy is dealing with actual godowns.

(Witness to Mr. Roy) Apparently your point is it does not matter at all how the godown is built provided it is insured.

Mr. Jadunath Roy: Yes.

(Witness) I say opinions differ. I think it does matter because a godown that is badly constructed is more likely to catch fire and there is more likelihood of some mistake occurring in the proposal of insurance and possibly disputes might arise.

8251. *Mr. Jadunath Roy*: About education you have suggested that if the relatives of indigenous bankers got their education from joint stock banks, they will be efficient. Is your bank prepared to admit children of indigenous banking families into your bank?—We are prepared to consider any application from such young men.

8252. With regard to the indigenous banker what position should they hold in the country? Is he to be linked with other banks?—I think he should be.

8253. What restrictions should be put on these indigenous bankers — I have mentioned commercialisation as a desirable step. After that is taken, restrictions may become necessary but at present I doubt that any are called for.

8254. *Mr. Shanmukham Chetty*: You say in your written memorandum that advances are often made on the security of hypothecation of stocks to industrial concerns. What other kinds of loans do you advance to industrial concerns except this?—We discount their bills and we advance against pledge of their stocks and we give them loans against Government securities.

8255. But the greater part of the advances to these industrial concerns are on the hypothecation of stocks?—That is so.

8256. And even in the case of advances on the hypothecation of stocks you require signature of the managing agents of the firm or some third party?—Yes.

8257. And this you require because of the obligation imposed upon you by the Imperial Bank Act?—Yes.

8258. If any such obligation is not imposed, do you consider hypothecation of stocks would be sufficient security?—Each case must be decided on its merits. It may be good enough in one and not good enough in another.

8259. In your experience of advances there are a number of sound industrial concerns to whom you would advance loans without the security of the managing agents?—Yes.

8260. Would you be in favour of repealing that provision of the Bank Act?—No, because it is a very sound position for a bank situated as the Imperial Bank is.

8261. You have yourself conceded that you would advance on the hypothecation of mere stocks?—In the particular cases to which you refer there is probably no danger, but general experience is that you have only got to give sufficient rope in that direction and you incur many dangers of other kinds.

8262. **Are you aware that** there has been considerable criticism on the part of the public with regard to the working of the managing agency system in India?—Yes.

8263. Do you not see one reason why managing agency system persists is because that some third party like the managing agents are always required to give their signatures for securing loans for industrial concerns?—It is one reason no doubt.

8264. So long as the bank enforces that provision, there is no chance of the managing agency system disappearing at all?—If the managing agency system did not exist the guarantee might be replaced by the pledge of stocks instead of hypothecation. So far as guarantee is concerned, the system is not indefensible.

8265. You know it would not be in most cases?—I think most concerns pledge their stocks. Even now the Imperial Bank very often advances loans partly by pledge and partly by hypothecation.

8266. Suppose the system of managing agents is abolished and industrial concerns are managed merely by paid managing directors; in such cases you cannot expect the directors to undertake personal responsibility for the advances that the bank make?—They often do in actual practice.

8267. Is it reasonable to expect them to do so?—I do not think they are likely to do anything unreasonable. It is quite a common practice.

8268. In advancing loans on the hypothecation of stocks do you take into account only the manufactured articles or do you take into account stores, fuel and things like that?—The stores, etc., may be hypothecated but not taken into account so far as the drawing power concerned.

8269. So it is only an additional security for you without conferring any margin for the borrower?—That is so.

8270. Do you know if any exception to this rule is made?—I think I can explain your difficulty there. The Imperial Bank is an amalgamation of three presidency banks and these banks had their peculiar customs but it is clearly impossible to bring these various customs into lines all at once even if it were desirable to do so.

8271. At present there exists in certain parts the practice of taking into account the value of stores also?—There may be, but we are trying to avoid it.

8272. Have you had any complaints about this practice, for instance in the case of European managed companies all these stores and fuel are taken into consideration but in the case of Indian managed companies they are not taken into consideration?—I have heard of them. The complaint has not reached me officially and I have not inquired into it.

8273. The managing agents are asked to give their personal guarantee. Do you know that where the managing agent has given his security for an advance to a concern which he manages, then his own personal credit to that extent is reduced with his bank and as you know the managing agent may have other business to do?—The liability has of course to be taken into account.

8274. Therefore under the existing system of requiring the managing agent to give personal security although he may be a very sound party, his borrowing power is to that extent curtailed?—I do not say it is curtailed, but the fact that there is an existing liability is taken into consideration and I think that for that liability he expects and he gets a remuneration.

8275. I suggest that if banks were to advance to industrial concerns without asking the personal security of any person, the managing agency system would disappear more quickly?—Possibly.

8276. You say that sound and well-managed industrial concerns usually do not experience any difficulty in making arrangements for their financial requirements. Supposing an industrial concern finds the money required for its fixed and block requirements by share capital, when the actual work is begun you advance only up to 70 per cent. of the value of the stocks?—Yes, approximately.

8277. Therefore you think the industrial concern should raise not merely its own share capital but also working capital up to 30 per cent?—That is absolutely essential.

8278. You do not think it is good enough for the industrial concern to find only its block and ask the bank to finance the working capital entirely?—No.

Sir Purshotamdas Thakurdas: May I take it that it is the ideal to work up to.

8279. *Mr. Manu Subedar*: Is that the condition in the United Kingdom that they only find the whole of the block but also 30 per cent. of their working capital?—I cannot speak of the United Kingdom.

8280. Why should there be a greater handicap on concerns started in India than elsewhere?—I am not aware that there is. I said I could not speak of the United Kingdom. Unless you can provide part of the stock-in-trade, you are definitely under capitalized. You must provide part of your own working capital.

8281. *Mr. Shanmukham Chetty*: You do not think in an organisation where there is an industrial bank to provide that working capital there is sound finance?—Is the industrial bank to provide the total of the working capital?

8282. I suggest that industrial concerns in India must in the first instance find their fixed capital and expand their own share capital. Having started that, they may look forward to an industrial bank to advance 30 per cent. of the working capital and then go to the Imperial Bank to advance 70 per cent. on the stock?—I have no doubt it would be satisfactory if the industrial bank can do it.

8283. If an industrial bank is established in India, then it will facilitate in bringing about that state of affairs?—It will.

8284. Do you not think it is one of the proper and legitimate functions of the industrial bank to do?—It might be possible to do that; I do not object to that any way.

8285. So if there is an industrial bank in existence in India it would to that extent help the development of industries?—Yes.

8286. You say that in your opinion industrial banks would not be a success in India at present as there would be little likelihood of the investing public having confidence in them. Therefore the lack of confidence in the investing public is the only risk which you consider would hamper the existence of an industrial bank at present?—Have I not answered that question?

Chairman: You said that under present conditions of depression you do not advocate the immediate establishment of an industrial bank.

8287. *Mr. Shanmukham Chetty*: Are you thinking of the depressed conditions of the past 5 or 6 months which prevail in the country?—No.

8288. Then what are you thinking of?—I have already answered that point in answer to the very first question put to me by the Chairman.

8289. *Mr. Shanmukham Chetty*: You ended up by saying that industrial banks and investment trusts must follow the development of industries and not precede?—Yes.

8290. Is not India sufficiently advanced in her industrial development to warrant the existence of these trust companies and industrial banks?—I have already answered that in the first part of my statement.

8291. Has India in your opinion advanced to the extent which would warrant the creation of these industrial banks?—You might introduce them on a limited scale in the jute and cotton industries, there is possibly an opening.

8292. Are you aware that the League of Nations regard India as one of the 8 great industrial countries of the world?—I do not know that.

8293. That would warrant the assumption that India is sufficiently advanced in the matter of her industries. I would therefore suggest to you that the time has now come for the establishment of these industrial banks. But you say that industrial banks would not be a success in your opinion?—The industries which give India such a high position as eighth among the countries of the world do not need the establishment of an industrial bank. They are old industries and we are seeking to establish industrial banks which would come to help new industries.

8294. When is the industrial bank to come into existence at all then?—After the pioneers have established the industry.

8295. Then according to you that industry will have become old?—No.

8296. Do you not think that there is scope for the development of the textile industry in Southern India?—At the present stage the textile industry has got as far as it can go, but future development will probably be in the way of up country mills including Southern India rather than mills in Bombay.

8297. Mr. R. O. Pears has said in his report on the Indian Cotton industry that there is great scope in Southern India. It is not one of the new industries about which there is any doubt. It is an old and well-established industry. Do you not think that the establishment of an industrial bank would give a sort of fillip to this industry?—I think it would.

8298. So to that extent the industrial bank in India would be an advantage —Yes, though in a limited field. Whether it would be a sufficiently wide field for the industrial bank is open to question.

8299. You said that an industrial bank would not be a success. Is it because you think there would not be sufficient scope for the industrial bank?—I think so.

8300. I thought you had said that the public would not have sufficient confidence in it?—Yes; that is another reason.

8301. Is that the primary reason in your mind?—I cannot say whether it is primary or secondary, but it is one of the reasons.

8302. Do you not think that the State must do something to create confidence in the public. If it is granted that there is scope for an industrial bank in India, but that the only obstacle is that the investing public

have no confidence, should the State do something to create that confidence?—In my opinion the industrial bank should be carried on without State interference.

8303. So you do not think that guaranteeing the industrial bank for the purpose of promoting the industries of a country is a legitimate function of the State?—I would not allow the State to do it if I had the authority.

8304. You said that State Aid to Industries Act was within the legitimate purview of the State?—Yes.

8305. Do you know that one of the provisions is that the State should guarantee the interest on the debentures?—Interest! That is another matter. I thought you were referring to the guarantee of all the bank's debentures.

8306. If an industrial concern wanted to raise capital and the bank was not prepared to advance it, the local Government was empowered to stand as a guarantor. Do you not think that it would mean the assumption by the State of a much greater responsibility than guaranteeing the interest on the debentures issued by the industrial concern, because in that case the State would be undertaking the guarantee of the whole business?—The guarantee under the State Aid to Industries Act is on a very small scale; that has been my experience.

8307. The fact is that local Governments might not have chosen for some reason or other to exercise the powers under that Act; but the provision is there?—But they have not exercised those powers.

8308. Do you think then that that provision is too wide?—No; I should not say so, so long as the State exercised its discretion.

8309. What do you consider as the legitimate way in which the State can come to the aid of the industries?—There is the State Aid to Industries Act. An industrial bank when it is started should have such a management that it should be able to dispense with the guarantee of the Government.

8310. You say "I see no objection to Government insisting upon foreign banks operating in India requiring license" and I think you further said in answer to Mr. Manu Subedar that before giving the license, the licensing authority must have the power to examine the position of the bank?—That is so.

8311. Once license is given, do you not think that the authority should examine the conditions of the bank periodically?—They should do so. If Government later on discovered that all was not right with the bank, Government should withdraw the license.

8312. But you have again said that once a bank has obtained a license it should not be possible to withdraw it so long as the bank complies with the law?—When I wrote that I anticipated that the law would provide that some authority of the Government should have the right to examine the state of affairs of the bank and that under the law they should have power to withdraw the license.

8313. In the note which you gave to this Committee about the prohibition of Exchange Banks against accepting deposits in India you say that if they are prohibited from taking deposits in India, they will have to pay a higher cost for funds which they have to borrow from abroad. This will necessarily increase the exchange margins. Do you not think that the deposit rates in London are cheaper than in India?—If the Exchange Banks

could get cheaper rates, they would not come to India, but you must realise that borrowing operations are interlocked with their dealings in exchange.

8314. What is your opinion?—If they could get cheaper rates, they would borrow in London. They would not come to India.

8315. What is your experience? Do they really borrow at cheap rates?—At times they do.

8316. What percentage of their total business is covered by internal trade?—I have no idea.

8317. My information is that it is very little and if that is a fact, internal trade would not suffer by the Exchange Banks being prohibited from taking deposits. The funds realised from them would go into other banks and thereby finance internal trade?—The other banks with possibly less competition would charge more for accommodation.

8318. If the Exchange Banks are prohibited from taking deposits, the other banks would be in a position to get the deposits at very cheap rates?—Please read out what I have said on the point.

8319. If the exchange banks are prohibited, it is quite probable that the Imperial Bank may be able to get money even at cheaper rates than they are getting at present?—Possibly yes.

8320. The funds for financing internal trade would remain in the country?—Yes; that is so.

8321. *Mr. Sarker*: You said in reply to Mr. Shanmukham Chetty that you only insisted on the hypothecation of stocks. Am I to understand that the Imperial Bank does not grant loans to individuals or to mills on the collateral security of immovable property?—We do; we have collateral security in the shape of equitable mortgages, etc.

8322. Do you find any difficulty in realising the amount within 6 months?—Not as a rule.

8323. Shall I give you some instances where you could not?—Yes.

There was a case of a loan granted to Justice Chakraburty.

Mr. Lamond: Sir, is it proper to give names in the open meeting?

Mr. Sarker: The case went to the courts.

(Witness) You can take my assurance of this that we could realise that money to-morrow; but I am not prepared to discuss the matter without the consent of the people who are interested in it.

8324. *Mr. Sarker*: When you grant those loans, you consider the position of the party as to whether the loan will be realised within 6 months?—Yes.

8325. And you do not find any difficulty in realising the amount?—Are you referring to this particular case or cases in general?

Mr. Sarker: To general cases.

(Witness): There are always difficulties in business. If you are going to do business, you will have difficulties within a very short time.

8326. Are the deposits attracted by branches invested locally or does a part of them come to the head office?—I do not think there is any case in which a part of the deposits is not invested locally. In many cases it is fully invested locally.

8327. Does such an occasion arise when you have to remit money from the head office to the local branches to be invested locally?—Yes, there are such occasions.

8328. What is your experience on the average working as to whether the branches draw from the head office or whether the head office draws from the branches?—It varies. I will send you a written answer.

8329. *Mr. Khaitan*: In answer to Mr. Sarker you said that the advance should not be made for a longer period than 6 months. Does not that mean that at the time the Imperial Bank makes the advance the period for which the advance is made should be not more than 6 months?—It does not mean that the loan must be recovered within 6 months?—Yes, that may be so, but it must be recoverable.

8330. It is based on the understanding that you will allow the borrower to have renewals and you are able to give this facility to the borrower from period to period?—Yes.

8331. And in doing so you are not breaking any of the provisions under the law?—No.

8332. And this facility is greatly appreciated by your customers, that is they can rely on your renewals so long as you find that they are dealing properly with the bank?—Yes.

8333. There might be some difficulty in some cases about the realisation of money and in those cases you have got to take the necessary steps for recovering the money?—Yes.

8334. With regard to the period of debentures you told the Chairman that in your opinion they should be for 20 or 25 years. Now during your experience of banking for a very large number of years, do you not think that debentures may have to be issued by industrial concerns for various purposes. In order to understand the point from you I would like to give you one example. Supposing there is a cotton mill which has got both spinning and weaving departments and the cotton mill is making a profit but on account of the changed situation in the country and on account of the changed tastes of the people the mill wants to extend the factory by establishing the dyeing and bleaching department for which a large amount of money would not be required and the cotton mill expected to repay the loan out of its profits within a period of 5 years. Would there be anything wrong for the mill to issue debentures for 5 years only?—No; I think not.

8335. Therefore you will perhaps agree that there may be cases in which it might be quite desirable for a concern to issue debentures for a much shorter time than what you at first mentioned?—The debentures as a rule are redeemed out of profits. Therefore the deciding factor in the period of debentures must be the profits. If you can afford to repay your debentures within 5 years, there is no reason why you should not issue 5 year debentures.

8336. *Mr. Khaitan*: May I take it that in your opinion there may be cases in which it would be quite advisable for an industrial concern to issue debentures for a shorter period than you mention?—Quite. When I said 20 or 25 years, it was a general idea of the term in which debentures were usually issued.

8337. I believe you were referring to a case of initial capital being obtained at the time of starting the concern and you were not thinking of subsequent small extensions or cases of replacement of old machinery by new ones?—That is so.

8338. Even in a case of replacement of old machinery by new ones it is quite possible that the concern may expect to pay the amount of the debenture money within a much shorter period than 20 or 25 years?—Yes.

8339. In your memorandum you say that "with regard to floating capital for stock and other recurring requirements, banks have met freely the requirements of industrial companies in the past, according to the credit of the borrower". Do you not think that there may be cases in which the credit of the borrower may not be of sufficient standing in the eyes of the Imperial Bank, but the information available to some other institution may be of a different nature which may be able to make the advance required by the concern but which the Imperial Bank may not think fit to advance?—Yes.

8340. Therefore, for the industrial development of the country do you not think that it would be desirable that some other big institution should also come into existence which may be able to give industrial loans, besides the Imperial Bank?—I think the more banks you have in the country, the better.

8341. *Sir Purshotamdas Thakurdas*: With regard to the question put to you whether you could recall to mind any instances where with hypothecation of goods in a joint stock company and the Agent's signature the bank lost any money, I thought you gave an impression as if you could not recall any such instance. Is my impression correct?—At the moment I could not. I now remember the case of the Wadia Woollen Mills in Bombay.

In that case there was hypothecation and the bank lost a good bit of money.

Mr. Manu Subedar: It is a very exceptional case.

Sir Purshotamdas Thakurdas: Such cases can be multiplied, they happen not only with the Imperial Bank but with other banks also. In this particular case the loss went into multiples of tens of lakhs; without the Agent's signature it might have been much more.

8342. Regarding the point that industries should start with all provision for capital outlay and provision for working capital, you have been in this country for very nearly 30 years if I remember correctly, and I would like to hear from you if you can name any industry in India which from its start had the privilege of beginning under such ideal conditions? That is to say a mill or concern which wanted 10 lakhs of rupees say, for its capital and then it wanted another Rs. 5 lakhs and the enterprise started with a fully paid up capital of 15 lakhs, so that it need not have to go to anybody for finance? —The point there is that ordinarily, and quite legitimately, they should be required to put up the margin. It happens that when a concern gets a mill going and it is in full working order, they have to buy their stocks somewhere. They must buy their stocks before they get any advance from a bank against the stocks. That is what I call a margin and that margin has got to be put up by the company itself; otherwise it means that the bank puts up all the cost of the raw material.

8343. You lay down as something to work up to that the full capital for the block should be found by the company from its capital?--Yes.

8344. After that it has also to find the margin which is required for its working capital?—Yes.

8345. If it can find the margin, then the bank will advance the balance of the finance. I wish to know whether you can name any industry, jute, cotton or any other industry, which in its initial stages has found that capital in India? It is a very good principle to work up to and you do work up to it if the industry thrives, but if you lay it down as a principle it practically means a great handicap to any industry?—What is the alternative?

8346. The alternative is that in Ahmedabad with the co-operation of the Agents and of such people who had money to spare they built up an industry which is a living instance of what can be done under circumstances which you know of?—Am I to understand that all the mills in Ahmedabad put up, say, 10 lakhs of capital and built mills with that amount and then got money from a bank to buy all their stocks.

8347. It is a little worse than that. For a ten lakhs mill they put up ony 2½ lakhs of capital?—They raised it on deposits?

8348. That is it. It is the only thing which has been found possible. Therefore, I say when you lay down this ideal, is it not too strict an ideal under Indian conditions to be feasible?—I do not think so.

8349. You think it advisable in India to attract capital for an industry for the full block *plus* working capital, all to be found by share capital?—I think so, the share being of suitable classes, including debentures.

8350. If your experience in India warrants that statement, I have nothing more to say?—As long as they find people to put up deposits, they are not likely to try to get their share capital.

People have not regretted having deposited in mills in Ahmedabad.

TWENTY-EIGHTH DAY

Saturday, the 27th September 1930.

PRESENT.

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).
Sir PURSHOTAMDAS THAKURDAS, Kt., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Lala HARKISHEN LAL.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. JADU NATH ROY.
Sir HUGH COCKE, Kt.	Mr. G. K. DEVADHAR, C.I.E.
Dr. L. K. HYDER.	Mr. NALINI RANJAN SARKAR.
Mr. W. LAMOND.	Mr. R. K. SHANMUKHAM CHETTY.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

The examination of Mr. K. M. MacDonald, Managing Governor of the Imperial Bank of India, was resumed.

8351. *Lala Harkishen Lal*: Would you kindly explain what is meant by 'short-term' and 'long-term' deposits as accepted by banks?—Most commercial banks accept deposits ranging from a deposit at call to 7, 10 or 15 days' notice or fixed for 1, 2, 3, 6 months up to one year. The short-term deposits would be up to three months and the long term over three months up to one year.

8352. In the case of industrial concerns and indigenous bankers, would there be any difference in the use of these terms?—I am told that cotton mills in Bombay and other concerns up in the north, *e.g.*, Cawnpore, receive deposits occasionally for two years, even more, 7 or 10 years?—I am afraid I cannot say what an industrial concern would consider a short-term deposit to be.

8353. Deposits over one year would not be taken by the banks?—Some banks would take them, but the Imperial Bank does not.

8354. Supposing a man did offer for certain reason a deposit for five years to the Imperial Bank at favourable rates of interest, would the Imperial Bank accept it?—No.

8355. For what reasons?—We consider that the future of the money market, as far as we can see it, makes it inadvisable to fix our rate for such a long period.

8356. That implies that your rates for long-term deposits at any rate, are fixed in view of the conditions of trade and finance in the country?—Yes, as we see them.

8357. How often are they changed?—Not very often.

8358. And if they are not changed very often, where is the consideration for the varying conditions of finance and trade?—The long-term deposit

rate is not changed very often, but the immediate movements in the money market are reflected in the rates which we offer for our short-term deposits.

8359. That is no doubt true, but I was enquiring about the long-term deposits. So far as I know, the long-term deposits do not generally depend on seasonal movements?—It is hardly a seasonal movement; we consider our rate to be reasonable for all the seasons of the twelve months.

8360. How often have you changed the long-term rates within the last five years?—The last change was in 1927.

8361. Since then it is more or less a fixed rate?—Yes.

8362. From your experience can you say whether it is the same with the Exchange banks or do they change their rates on long-term deposits from time to time?—I cannot answer that question off hand.

8363. What is your impression?—My impression is that Exchange banks vary their rates more frequently than we do.

8364. Would you feel any sort of competition if they changed their rates? I suppose you would get intimation about it very easily?—Yes, if we found that competition made it necessary to alter our long-term deposit rates, we would do so.

8365. But you have not felt it necessary to do so within the last 3 or 4 years and so you presume that the Exchange banks have not changed their rates?—Not materially.

8366. Have these short-term deposit rates as understood by banks any bearing on the bank rate?—The same causes which result in a change in the bank rate would affect the deposit rate also.

8367. Automatically?—The mere fact that the bank rate has altered does not necessarily change the deposit rate except at the discretion of the authorities of the bank; it is not a mechanical movement.

8368. In the London market the short-term deposit rates are altered immediately the bank rate changes?—That is so.

8369. Not only that, but they have to change the deposit rate within a week or fortnight of the change in the bank rate?—I am not very conversant with the London money market conditions, but I can say that the morning after the Bank of England rate changes, every bank in London issues a notice that their rates for deposits are changed accordingly.

8370. I have been a fairly constant reader of "the Economist" and I have always found a statement on the fourth page of this paper which gives:

	%	%	%	%
firstly, the bank rate	4	4	3½	3½
(then follow the previous rate and date changed)				
secondly, Banks' deposit rate	2	2	1½	1½
(it is always under 2 per cent. automatically)				
thirdly, Discount Houses { Call . . .				
{ Notice . . .				

(These change automatically because the difference between the various rates is fixed), and lastly, the Market rate.

Does this happen in India?—No.

8371. Could any means be found to give more certainty to both depositors and borrowers that such rates would be fixed?—I think the difficulty is that the Bank of England rate is a rate for a certain class of business and

the bank rate in India is for another class of business. The Indian rate is for demand loans against Government paper, while the Bank of England rate is a rate quoted for three months' bills. In India the rate for cash credits is based on the bank rate and in fixing the bank rate we must take into consideration the fact that on it is based rates for advances in the form of cash credits, not bills.

8372. The standard has to be fixed by the Bankers' bank whether it is in England or in India. The conditions may be different and the terms of the ratio may be different, but it does not follow that because the consideration for changing the rate is different, the rate should not affect the deposits of other banks?—It would be much more difficult to do what you suggest in India as the rates which are quoted in the "Economist" are not parallel to the Indian rates. If you go to a London bank and ask for accommodation, you will get it at, as will be understood if it is realised, the rate approximate to your requirements. In India you will find very little difference. The bank rate in London to day is 3 per cent. and if you ask for accommodation by way of over draft, probably you will have to pay at 5 per cent. or 5½ per cent.

8373. But the difficulty I want to solve is this: Here there is so much uncertainty and undefined position and it is the duty of the Imperial Bank to try to define things and to make them certain. We have had evidence that your advances against crops are fixed for two seasons. Those rates are not affected by the alteration in your bank rate?—No, but I am not aware that we have fixed a rate for longer than a season.

8374. In that way if the sphere were defined distinctly, there would be more certainty. Now they are uncertain and other banks are in difficulty for quoting their deposit rates and they quote a rate which is much smaller and the result is that there is competition between certain classes of banks with regard to the deposit rate of interest and also uncertainty with regard to the rates that the trader would have to pay to a joint stock company or to the Imperial Bank in case he comes along with his hundis or railway receipts or demand drafts or any kind of trade accommodation. Could this be thought over and something done?—Until you get a highly organised money market such as you have in London and reorganise our currency system so that it will perfectly meet the very marked seasonal demands I do not think it would be possible to do as you suggest. As a matter of fact these rates which are quoted in London vary strictly in accordance with the Bank rate, but in the provinces there is a much greater divergence.

8375. The divergence is much smaller than in India. It is not only that the money market has to be organised, but the bank influence has to be produced. Very likely it is the Bank of England which exercises the influence in organising the London money market?—I think it is a matter of growth. I think the Indian money market will grow to a fully organised money market approaching to something like the organisation of the London money market eventually, but you cannot do it all at once.

8376. I do not say it should be done all at once. I am asking this question because we have before us as a Committee this question of the organisation of the money market. Would the Imperial Bank take into consideration this aspect of the matter and help us in arriving at some workable scheme or schemes for the stabilisation or organisation of the Indian money market?—I think the best thing would be to start the Reserve Bank as the centre of the money market.

8377. But the Reserve Bank cannot start from the top with settled ideas. They will start where you place them?—I am afraid I cannot give any constructive suggestion beyond what I have mentioned at the present moment.

8378. You told us yesterday that industrial finance by means of deposits is not a good way of financing an industry. Am I to undertand that it is not so for depositors or for the industry?—My remark was that I consider the financing of industrial concerns by means of deposits fundamentally unsound, and I was then considering the matter from the point of view of the industry.

8379. Would you in future lay down a rule that public deposits should not be received by industries as such, but must pass through the banks before they are utilised by industries, or would you allow anybody and everybody to receive deposits without any legal liability for balance sheets or keeping a certain amount in cash?—I would be very reluctant to make any restrictions whatever upon the right of anybody to lend their money to anybody else at his own descretion.

8380. All other loans have, for example, to pay stamp duties of some kind or another. The deposit is free from stamp duty. There are certain features peculiar to lending and borrowing in the shape of deposits, and you would keep these open to everybody or to banks only?—For everybody.

8381. Then if people can receive deposits or would be able to receive deposits, why should they not finance the industries in that way if they find that it is the most suitable way?—My answer to this has already been fully stated. It refers to the extent to which industrial concerns accept deposits in the place of share capital or debenture capital. So long as an industry is doing very well, it is an excellent thing because they can thus earn large dividends on their capital which may be small because of the low rate of interest on their deposits. But when bad times set in, the deposits are liable to be withdrawn. There is also this additional point that even during bad times the interest on these deposits will have to be paid.

8382. There is a little difficulty in my understanding your point. We were told yesterday that these deposits are sometimes made for even 7 or 10 year periods and therefore do you not think that the chances of withdrawals would be not so much as in the case of debentures which are timed to be repayable within so many years or even payable by instalments, and interest on debentures is also payable half-yearly in most cases. Therefore the case of deposit and debentures would not differ very materially?—Although I cannot dispute that there are deposits of 7 or 10 year periods, this is the first time that I have heard of such long term deposits. But there must be large amount of deposits even at call, in my experience these have been very serious embarrassments to industrial concerns.

8383. Have you any information on the interest paid on these call deposits? Is it lower than the Imperial Bank rate or not?—I do not know; probably it is higher.

8384. You said that you were of opinion that the foreign banks working in this country should be licensed and you held that none should be permitted to enter India without a license. Do you refer to foreign banks as a whole or only foreign banks who do exchange business?—Foreign banks as a whole.

8385. Would you then confine exchange business to the existing banks or would you also grant special licenses for Exchange Banks that might come

in in future or would you leave it to the sweet will of the in-comer?—I should leave it to the free will of the in-comer.

8386. If all the foreign banks were allowed to do exchange business under the license, how could the Indian banks enter that field? Is it by mutual reciprocity—I think they too can go into the market on the same terms as other new comers. There is an open field in the matter.

8387. Supposing an Exchange Bank from Italy was permitted to work in this country, would you insist in the license that will be issued to them that Indian banks, if they cared, should also be permitted to open their branches in Italy as a matter of reciprocity?—I would like to consider that for some time. As I have already said the terms of license will have to be carefully considered by a competent body.

8388. One of the conditions can be reciprocity?—Yes, it can be, but the terms require careful consideration.

8389. In regard to the existing Exchange Banks, it is said that they are supposed to hold the monopoly of that business. Is that true?—I do not think it is so.

8390. If that was not a monopoly of the Exchange Banks, then how is it that the Imperial Bank agreed to keep away from the exchange business? —Did we agree?

8391. By the Imperial Bank Act you are debarred from doing the exchange business. What were the reasons for debarring you?—Those reasons must have been in favour of the Exchange Banks. Is that not so?—As you know, the Presidency Banks were debarred from doing exchange business and that I think, was due to the fact that exchange banking then involved very considerable risks.

8392. That was only a safeguarding measure you say?—Government of India when entering into the agreements with the Presidency Banks considered that they were not justified in leaving Government balances with a bank which incurred the risks then involved in foreign exchange business. That idea persists to-day and I do not think it is a matter of favouring the Exchange Banks.

8393. You say it was not a competitive measure but only a safeguarding measure?—Yes.

8394. So far then, wherever the Government deposits are involved, the opinion is still held that exchange business should not be done by the Imperial Bank or any other bank that might come into existence?—I am only referring to the Imperial Bank under present conditions.

8395. With regard to Government deposits that have to be safeguarded that applies to municipal deposits, military deposits, port trusts, corporations and Indian States?—The agreement is between the Government of India and the Imperial Bank.

8396. What I say is whether in the matter of taking such precautions, does it only refer to Government deposits or all kinds of these deposits which I have referred?—The precaution was insisted upon by the Government of India when the Presidency Banks Act was enacted and thereby it protected the interests of the deposits of Government with these banks.

8397. What about the other deposits that I referred to?—Deposits from Railways and Army are included in the Government balances, the other items are not included under Government balances.

8398. If a Reserve Bank came into existence and you continued to hold these *quasi* Government deposits, even then will it be held that you should not be allowed to do exchange business, if all Government deposits went to the Reserve Bank?—As I said, there is a considerable body of opinion in this country who hold that this is a protective measure and it is necessary to safeguard the interests of Government deposits.

8399. Yesterday, you were questioned on the desirability of our premier Indian bank entering into exchange business and you were of opinion that you could do so when you had the necessary staff and so on, but that from to-day's conversations, I note that you feel there would be impediments all along the line?—Well, it is a matter of opinion.

8400. *Chairman*: You are aware that when the Reserve Bank Bill was introduced, a subsidiary Bill was also introduced in the Assembly which provided for the withdrawal of the restriction imposed against the Imperial Bank undertaking foreign exchange business and neither of these two measures contemplated that along with their adoption the deposits of port trust funds or of municipalities should no longer be kept with the Imperial Bank. Is that not the correct position?—Yes.

8401. *Mr. Lamond*: During the last few years, you know as a matter of fact other banks have also been permitted to accept municipal deposits and it is not the Imperial Bank alone that is getting all these deposits?—That is so.

8402. I want to know your opinion as an expert in banking and an experienced banker of India on a question of general interest. You know we have been asked to study the question of banking facilities in all the fields of economic activity in India, whether rural or urban, whether industrial or agricultural, and thereby we have to review the various systems of banking prevailing in India starting at the bottom with the co-operative banks as also with money-lenders and indigenous bankers in the same field, then higher up the joint stock banks, then the Exchange banks and then finally the bankers' bank, the Imperial Bank, on top. In regard to this matter there has been some confusion with regard to the assistance that one party should render to the other. The claim of the co-operative banks is that they should get all the assistance by way of cash credits, discounting, overdrafts and so on from the Imperial Bank. In the interests of industry and trade the same claim should be advanced by the commercial banks, that their paper should also be discounted readily and at very favourable rates, because only then the banks would be able to give better facilities to industry and commerce. In the same way there should be the claim of the indigenous banker and the money-lender, because the present opinion expressed in the provincial Banking Committee's reports is that the money-lender is not the same evil genius as he has been supposed to be, but he is also a useful link in the financial machinery and should therefore be properly looked after. Therefore, I ask you this question. Do you think it desirable that the sphere of activities of these various functionaries should be defined by some banking association or some banking authority, like the Imperial Bank, and the assistance that they might expect from the Apex Bank should be proportionate to their means? I am asking this question for this reason, that looking at the weeklies of the Imperial Bank of India from time to time I find that the cash balances with the Imperial Bank sometimes run down to 10 per cent. and once I am told it went down to even 7 per cent. That means that the Imperial

Bank cannot accommodate everybody at all times and therefore that Bank will naturally have to choose and this leads to misunderstanding and sometimes people say that the choice has been made by the Imperial Bank out of racial considerations. Do you not therefore think that in the interest of the development of banking facilities in this country the sphere and scope of these financing agencies from the Imperial Bank downwards should be defined by convention rather than by law as at present and the Imperial Bank should assist the whole financial world in that way?—I do not think that the Imperial Bank should be asked to define the field of activities of any or all the financial institutions in India. The Imperial Bank's activities are defined by its constitution.

8403. I agree, but what I mean to say is, that when everybody looks upon the Imperial Bank as the bankers' bank, do you not think that some such definition would help in the solution of the problem?—I do not think the Imperial Bank should be called upon to make any declaration of that sort, but as a matter of fact you will find in practice that the Imperial Bank, like other banks, is dealing with its customers to the best of its ability, and if that Bank finds that in its opinion any of its customers is going outside their proper sphere, they will let the customer know that.

8404. That will be after the event. Why should it not be known before the event? One would be regulation and the other would be police action?—I do not think so. You are asking the Imperial Bank to do too much. We cannot prohibit other people from doing any business they like.

8405. You think if the Reserve Bank would come into existence, that would be able to do that?—No, not in the way you suggest.

8406. So you think things will have to take their own course in the light of experience?—Largely so, yes.

8407. You made some suggestion with regard to the investment trusts. Is it your idea that these should not be brought into force until the present condition of the state of industries in this country improves?—I think that in the numerous little industries that I have seen started in India there has been much too great a tendency to borrow money from the outside public instead of the promoters putting up their own capital and the idea as far as I can make out is held that investment trusts should be formed in order to supply these embryo industries with the capital which many people think that they should be provided by the promoters. When you have a large body of organised industry, then you can bring investment trusts into operation with a reasonable success and benefit to all concerned.

8408. Would you believe that when I started my career as a cotton spinner I got hold of a book written by Mr. Walmsley, a Manchester expert, and I found that in it he had laid down definitely that it is much better to have small capital from promoters and have large borrowed capital which will carry a smaller amount of interest which the promoters may expect to pay out of profits. I took that advice and I did not then realise that my country was not yet ready for that advice, and it was meant only for commercially developed countries like England. May I ask if that advice was sound for England, why it should not be so here?—So far as it relates to finance by way of deposits I think it is not sound for England. The position of the cotton textile industry of Lancashire is bad or worse than that of Bombay or Ahmedabad Mills and I believe the deposits system has been a cause of embarrassment there.

8409. You therefore, think it is not a sound idea?—Yes, it is only the Lancashire idea and it is not the right idea.

8410. You think it is a wrong idea?—I do. Supposing other people do not agree with you, that it was a wrong idea because this idea is also held by other financiers, what would be your remedy?—I would propose that capital for the industries should be put up by the promoters in the shape of share or debenture issues.

8411. But if they have not got the necessary money but have the requisite knowledge, experience etc.?—They will have to find it by putting a good proposition before the public.

8412. Do you mean to say that they should first make money from other sources—which are very limited in India—and then promote the industries? You know in countries like England and Germany, people have many sources open to them to make money while in India there is a scarcity of such sources. Would you indicate the sources from which the promoters should find the money?—Some of them may be good inventors and they may be honest and capable workers.—I think the best reply to that would be the case of certain Cawnpore mills or some of the jute mills in Bengal or the tea gardens of Assam. They were all started in a small way, very often by one man only. But as a result of good management and as a result of conserving their profits, they are all very prosperous concerns today.

8413. So your idea would be that if the industry could be divisible, the smallest unit should be attempted first, commensurate with the funds available?—If you can put up the capital for a large venture, start it, but it is generally a good thing to start a new industry in a small way.

8414. As regards securities, does the Imperial Bank accept as security the shares of other banks which are quoted on the Stock Exchange?—No.

8415. Are the debentures of such concerns which are quoted on the market accepted as security by the Imperial Bank?—Not by Imperial Bank but they are by other banks. We can accept them as well as shares as collateral to a limited extent, but not as primary security.

8416. Yesterday we were discussing the question of raising capital. Do you not think that one of the ways of raising money would be for respectable people, who though they had no capital, had the means, to take up debentures issued by good and reliable concerns?—Yes, that is what takes place very often.

8417. There is nothing from the banking point of view against it?—Nothing, provided there is a sufficient margin against the issue.

8418. What is your idea of a sufficient margin?—It would depend entirely on the standing of the debentures and the security which the debentureholder has. I cannot say what the other banks require as a margin for debentures. As I said we do not accept them except as collateral securities. As regards share capital the usual margin is from 40 to 50 per cent. of the market value.

8419. *Chairman*: Arising out of Lala Harkishen Lal's questions I want to ask one questiaon just to be able to appreciate the position correctly. I know from the Imperial Bank Act, as it now stands, that the Imperial Bank is not allowed to advance money on the shares and debentures of limited companies except as collateral. From the point of view

the Imperial Bank is there any objection to its undertaking that business if of course the provisions of the Act were amended?—I think that so long as the Imperial Bank is in its present position, it is much better to stay out of that business.

8420. By present position you mean so long as it holds Government balances?—Not only that, but also from the point of view of its responsibility to the country as a whole.

8421. But some of those responsibilities will be largely reduced if and when a Reserve Bank is established?—I would first like to know on what lines the Reserve Bank is to be established and also what position the Imperial Bank is going to hold.

8422. *Mr. Shanmukham Chetty*: You said in answer to Lala Harkishen Lal that the practice which prevailed in Ahmedabad of starting under-capitalised concerns and financing the block account by deposits, etc. is originally a Lancashire idea?—Because I know that this was the practice in Lancashire before it was introduced in India.

8423. Has it come to your knowledge that any of the Lancashire mills have suffered to any considerable extent or have been faced with any considerable difficulty as a result of following this practice?—I think you will find it so stated in more than one article of recent years in the London financial papers. It is common knowledge I believe.

8424. But have the mills actually got into any difficulties?—Deposits were withdrawn, and if it had not been for the banks who took the place of the depositors, the crash would have come earlier than it did.

8425. My information is that the difficulties of the Lancashire mills began as a result partly of over-capitalisation during the boom, period and their difficulties increased when there was a run on them for the withdrawal of deposits. My point is: is it not a fact that the Lancashire textile industry was built up and had flourished considerably inspite of their following this unorthodox practice?—As I have said, it is a good practice so long as everything goes on well; but the danger is that immediately things cease to go well, the money raised by deposits will be withdrawn, and that was, I think you will agree, what happened.

8426. Do you know if in Calcutta either the Imperial Bank or its predecessor, the Bengal Bank, made advances to jute mills for block account? —I do not know of any single instance where this was done.

8427. *Sir Hugh Cocke*: The quotation which Lala Harkishen Lal gave from Walmsley's book,—I think it was to the effect that the proprietors would do well to keep their own capital small if they could raise sufficient further capital from the public outside. It was not contemplated that it would be short-dated capital. It is not unusual for proprietors to keep their capital low, provided they can get debenture capital subscribed. Now I put it to you that that is usual; it is not objectionable? —No, so long as it is share capital. I understood Lala Sahib to mean deposits.

Lala Harikishen Lal: I meant the total capital, working and block both. Walmsley says that the promoters' money should be small and the outsiders' money large, for then the profits would be large.

8428. *Mr. Manu Subedar*: You referred to the deposit rates of the Exchange banks; are they uniform or do they vary among themselves?—They vary from bank to bank.

8429. Do not some of the new comers offer higher rates?—I would not confine my remark to the new-comers.

8430. You said that the deposits which they had were adequate for foreign trade and that they were also financing a certain portion of the internal trade from these deposits?—I did not express the opinion that they were adequate. However, I will not dispute that.

8431. You know that by offering half per cent. more the Exchange banks could take more deposits than they do now. There is nothing to prevent them from doing it?—Not, if they choose to do that.

8432. At present your deposit rates are lower than the Exchange banks'?—For 12 months' deposits they are lower.

8433. But people are quite willing to forego the half per cent. for the greater security which the Imperial Bank might offer. But if the Exchange Banks were to offer half per cent. more, some of your own deposits would be drawn away?—Yes, possibly.

8434. If the deposits in the Exchange banks are adequate for foreign trade and also if they are going to some extent towards the financing of internal trade, do you not agree that there is no need to increase the quantity of the deposits for the purposes of foreign trade?—I cannot say what is going to happen in the future; conditions may change.

8435. If other things remain absolutely the same, would the present amount be adequate for foreign trade?—If conditions do not change at all, yes, it may be so.

8436. And the door is at present open to them to take more money by increasing their rates?—Yes.

8437. You would not like that door to be closed?—No.

8438. Not only in the interests of the Imperial Bank but in the interests of the joint stock banks; the latter, you know, pay a lot more?—In the interests of business generally, I should say, no.

8439. You know that even now this money is not being used in India?—You mean it is used for export?

8440. If money is taken in India and used in Ceylon, Malay Peninsula or Japan, you would not interfere?—That is a big question and I would like to consider it.

8441. Would you favour us with your views later on?—Yes.

8442. *Chairman*: Some of the witnesses before the Committee have complained of the dual control of the Government of India and the Imperial Bank over the Bank rate and suggested that until a Central Banking Authority can be created, the regulation of Bank rate should be in the hands of the Imperial Bank without interference from the Executive. So long as the control of Currency is in the hands of the Government, do you think it is possible to take away from the Executive any voice in the matter of the regulation of the Bank rate?—So long as the control of the currency is in the hands of Government, it is impossible to take from them the powers over the Bank rate which that control gives them. Those powers confer the right to expand and contract the currency and the supply of currency is an important factor in determining the Bank rate. Even if it were possible to take away the powers of Government in this matter, it is clearly to the advantage of the country

that currency and credit should be managed by authorities working in sympathy and that could not be, were the power vested in only one of them.

8443. One of the prominent Indian bankers, has pointed out that banks in India have no sources of information to determine the credit of their clients except through bazar reports and that if a bank insists on a client's producing his balance-sheet, the client resents the idea and goes to another bank which receives him with open arms without insisting on the information. It has been pointed out that this state of affairs is unsatisfactory and it has been suggested that some concerted action by banks in this matter would go a long way to improve and extend credit where needed. Do you approve of this suggestion? If so, have you any objection to the Imperial Bank taking a lead in the matter?—The information necessary to conduct a satisfactory banking business in India is available in the great majority of cases if the correct method of obtaining it is followed—the success or failure of the efforts to obtain the information must depend on the ability with which the banking business is conducted and I do not think concerted action will save the "bank which receives him with open arms without insisting on the information". I do not approve of the suggestion made, as the improvement and extension of credit where needed can be provided by banks which confine themselves to legitimate banking risks, moreover concerted action between a number of competitors doing business under different conditions and standards is almost impossible; also if any attempt to work on such lines were made, there would be an immediate charge of a combination detrimental to the general public.

8444. It has been suggested that opening and closing hours of banks at any place must be uniform for all banks and that the present state of affairs where some open for business at 10-30 and some open at 11 and where some close at 3-30 and others at 4 or 4-40 is not satisfactory. Are you in favour of laying down uniform opening and closing hours for banks at any place?—The opening and closing hours of a bank should conform as far as possible with the requirements of the people dealing with the bank and in practice it will be found that this is so. It follows that where the clientele of one bank is different in its requirements to that of another bank the hours will vary. To lay down uniform opening and closing hours would be a handicap to trade and business generally.

8445. It has been pointed out that the rates of interest charged by banks to merchants and traders vary among other things with reference to the seasonal rise and fall of the Imperial Bank rate and that it is not unusual to have the latter rate standing at 6 per cent. with money at call unlendable at 2 per cent. Would you kindly explain to the Committee what this latter phenomenon is due to?—Does not this phenomenon act to the detriment of trade and industry? Have you any remedies to suggest?—The Bank rate and the call money rate are in reality the charge made for two different articles. The former is the interest charged for "credit" for an agreed period. The latter is the interest obtained on surplus "cash" seeking day to day employment, the owner of such cash will accept a return however small rather than leave the money idle, provided he can be sure of its immediate re-payment when needed and the rate therefore tends to conform to Banks' demand *deposit* rates rather than to their lending rates.

Call money can only be invested in an immediately realisable form, or alternatively the borrower must be prepared to borrow elsewhere at whatever rate is demanded, as repayment must be made immediately it is called for; it is not therefore of nearly so much value as an ordinary loan which the borrower can repay when he likes but can rely on the lender not to call on him to do so until the lapse of a specified period and even then to give further time in deserving cases. In the case of "call" loans the option of repayment is with the lender and of other loans with the borrower subject to the terms of the loan.

It sometimes happens that call rates are above Bank rate owing to a sudden temporary stringency in the cash position resulting in the calling up of the money lent on call; credit rates are not so liable to be changed for temporary reasons.

The quotation for call money is usually for very insignificant sums compared with the amounts involved in credit transactions (loans from banks based on Bank rate).

It should be noted that wide differences between call money rates and Bank rate are not peculiar to India—they are characteristic of London, New York and other monetary centres.

8446. It has been suggested that the management of sub-treasuries in centres where there are no branches of the Imperial Bank of India may be entrusted to approved co-operative banks or branches of such banks and that this would, besides facilitating the treasury work of Government, enhance the status of co-operative banking in the public mind. Would you kindly tell the Committee your views on this suggestion?—In the present state of the Co-operative Movement in India I am of opinion that it is not advisable to entrust to them the management of the sub-treasuries. These banks have as much as they can do to mind their present business and it would be beyond the powers of their staff to undertake the suggested management. The status of co-operative banking might possibly be enhanced by the suggested step because it would encourage the idea of Government responsibility but I am of opinion that before any such step is taken, the present relations between Government and these banks should be strictly enquired into and placed on a clear and definite footing beyond all possibility of misunderstanding.

8447. The representative of an Indian Bank giving evidence before the Committee stated that admission to the Clearing House has been always a jealously guarded monopoly of members where the Exchange Banks are generally in the majority and that Indian banks have found it very difficult to gain admission. The instance of the Bank of Hindustan in Madras has been quoted and it has further been alleged that while the Indian members of the Clearing House in Madras voted for admission of that particular Bank, all the non-Indian members voted against it with the result that the Bank was not admitted. Have you anything to say on this particular instance and on the general allegation?—Speaking generally it may be said that membership of the Bankers' Clearing House is regarded in all parts of the world as a valuable privilege and that in view of the liabilities to all the other members which every member incurs at each clearing it must rest with the existing members as to who shall be admitted as new members. The standing, reputation, volume of business, of each applicant must of course be considered but refusal of admission should not be regarded as a reflection on the character or stand-

ing of the candidate. There are many other factors to be considered and it is a well known fact that many British and foreign banks of the highest world standing are not admitted to the London clearing.

I prefer not to discuss the particular case mentioned in the question as I have no personal knowledge of it and such a discussion would be out of place here.

8448. The representative of an Indian bank has stated that the opening of a new bank or the branch of an existing bank is a very difficult thing in India owing to the attitude of the Imperial Bank. It is said that instances are not wanting where promoters of a new bank are dissuaded from the work, where borrowers of a new branch of a bank are threatened with the cancellation of all existing facilities and where even the usual facilities allowed to its ordinary clients or even the common courtesy of a co-banker are denied by the Imperial Bank to the indigonous banks. Have you any observations to make on this statement?

In connection with the above statement the following instances have been placed before the Committee:—

(1) One of the members of the local Advisory Board was advised to cease all connections with a branch of the Andhra Bank and he was further told that if he promised to do so, they would wait for two months and see whether he actually acted up to his promise and then only help him in his banking requirements.

(2) The Andhra Bank opened a branch at a certain place and in order to help that branch the Bank asked the Imperial Bank to transfer a portion of its cash credit at the head office of the Bank to its branch. The Imperial Bank is stated to have refused this facility and this has been understood by the Andhra Bank to be an attempt by the Imperial Bank to discourage other banks from opening branches where the Imperial Bank has its own branches.

(3) The Imperial Bank allows a special rate of 1/32 per cent. for remittance of sums of Rs. 10,000 and over to other banks and they appear to have refused this facility to the Andhra Bank which applied for transfer of funds from Masulipatam to Cocanada and Hyderabad where the Bank has branches.

(4) In Cocanada where the Andhra Bank has opened its branch, the Imperial Bank charge commission for collection of the cheques on the Cocanada branch of the Andhra Bank at 1/16th per cent. They are not charging in this way at Masulipatam, and this is understood by the Andhra Bank to be an attempt on the part of the Imperial Bank to discourage the opening of branches by other banks at places where the Imperial Bank has its own branches.—The Imperial Bank does its best to help smaller banks and I disagree entirely with the statements made in this question regarding the attitude of the Imperial Bank to the indigenous banks. The instances regarding the Andhra Bank are being enquired into and the result will be advised later.

8449. A complaint has been made that the new branches of the Imperial Bank of India in a number of places serve no useful purpose and

only cut into the business of local banks. Would you kindly explain to the Committee whether there is any force in this complaint, with particular reference to the one hundred new branches opened by the Imperial Bank?—At every branch of the Bank we conduct the Government Treasury business which I think most people regard as a very useful service for all concerned. At a few places where we have opened branches, it has eventually been found that prospects did not justify our remaining there and we have closed down. The fact that we have met with satisfactory support from the public at most places is a clear enough indication that we serve a useful purpose there, from the point of view of the public.

8450. One of the measures suggested to the Committee to protect the interests of indigenous joint stock banks is to prohibit the opening of new branches by the Imperial Bank of India at places which in the opinion of Government have been adequately supplied by banking facilities by the existing institutions. It has been proposed that Government should judge the adequacy of banking facilities by the number of institutions at the place, by the interest rates, the population, trade and industry, etc. Would you kindly favour the Committee with your views on this suggestion?—I am opposed to any restrictions whatever on the activities of any bank in the field of branch banking. What this country wants as much as anything is banking facilities on the widest possible scale and the best way to ensure this is to leave it to the initiative of the banks themselves. If it pays them to open new branches, let them do so.

8451. It has been alleged that at places where the Imperial Bank has the sole monopoly of banking business, it charges higher rate of interest than at places where it has to compete with other banks and that this clearly proves that its lowering of interest rates at other places was not actuated solely by regard for public interest. Have you any observations to make on this allegation?—This may be so at small places where there is little business to be done and consequently we find it difficult to cover expenses—similar conditions prevail in costs of other articles besides money. Generally speaking, however, we work at uniform rates and it will be found that whether or not there are competing banks present, our advent has resulted in a reduction of rates to the advantage of borrowers. It is perhaps unnecessary for me to observe that regard for the public interest is not, and we have never held it to be, our sole motive in fixing rates either lending or deposit—we have our profit earning side to consider.

8452. It has been brought to my notice that the Imperial Bank opened a pay office at Chandausi and that it resulted in the reduction of the rate of interest charged by the previously existing banks to the public. I understand that the pay office was later on closed and the older institutions have again raised their interest rates. Will you kindly tell me whether the facts are as stated? If so, what useful lessons could be drawn from such experience?—

Please see answer to question 8081.

8453. It has been pointed out on behalf of the Indian joint stock banks that there is a minimum rate of interest which they should charge to the public having regard to:—

(1) the rates paid by them on the deposits received,
(2) their charges for maintaining branches including over-head charges and
(3) charges for remitting money from place to place.

Could you kindly tell the Committee whether you can indicate any particular rate of interest as a reasonable rate from the point of view of the Indian joint stock banks and the public?—I cannot say more than that money rates are determined by supply and demand, not by the factors detailed in this question except in so far as they affect supply and demand. The rate for loans must be such as to admit of reasonable profit after paying all charges and making all necessary provision for bad debts, depreciation, reserves, etc., etc.

8454. The Indian Tea Planters' Association have pointed out that the Imperial Bank at present finance tea companies by advances against personal guarantee of a broker on hypothecation of crops as collateral securities. It has been suggested that it would be very convenient to the tea industry if the Imperial Bank could provide the necessary finance on the guarantee of local banks like the Jalpaiguri Banking and Trading Corporation Ltd., which is the premier local bank in Jalpaiguri where there are about 144 tea gardens. Would you kindly favour the Committee with your views on this suggestion?—The Imperial Bank is prepared and actually does finance tea gardens on the guarantee of a suitable third party supported by hypothecation of the borrowers' crops. Any application for such accommodation will be dealt with according to its merits.

8455. It has been stated that the grievances of the trading community against the rates charged by the banks which are based upon the Imperial Bank rate are to a certain extent justified in that for many months in the year, the Imperial Bank rate does not reflect the true condition of the money market and that instances are not wanting where banks advance money at 2½ per cent. on gilt-edged securities while charging 7½ per cent. to trade and industry on their cash credits. Would you kindly favour the Committee with your observations on this point?—Please refer to my answer to question 8445. The explanation is very much the same here—the rates quoted are not for the same accommodation.

8456. In order to protect banks which are honestly managed from embarrassment caused by mischief makers, it has been suggested that a provision should be made by law to the effect that on any application being made by a shareholder for instituting criminal proceedings under the Indian Companies Act against a bank, a preliminary enquiry shall be held *in camera* into the allegations made and the charges shall be framed only if the result of such an enquiry in the opinion of the Court, warrants the same. Do you agree with this suggestion?—I am entirely opposed to proceedings *in camera* in these cases for the reason that concealment will have more harmful effect than a full disclosure of the facts. I understand that under the present procedure the Magistrate concerned has enough power and discretion to ensure that sufficient enquiries are made before any summons is issued.

8457. Some witnesses are of opinion that in the present condition of Indian banking, the best way to provide better credit facilities to trade and industry would be by organising indigenous bankers into a class of licensed bankers and using them as agents of the Imperial Bank or of a Central Banking Institution. Do you favour this suggestion? If so would you kindly state (1) the restrictions and obligations to which the licensed bankers should be subject, *e.g.*, in respect of business, security to the bank, etc., and (2) the privileges which they should enjoy?—The Bank has consistently set its face against the practice of allowing its agents to

undertake any business on their own account and, if a shroff were appointed an agent of the Bank, he would not only expect to be allowed to carry on his own business but also to do business which would be in competition with the Bank. It would be very difficult for him to do other than put his own interests first. Further the Bank could not very well differentiate and, if other agents wished to do money lending business, it would be almost impossible to stop them.

Another aspect of the proposal is that, if the shroff guaranteed the business he put through for the Bank, we should have to allow him to take any steps he desired in times of stress to protect his own interest. The steps taken might conflict with the Bank's policy and result in undue pressure being put on constituents at a time when a more lenient course would be in the interest of the country as a whole.

8458. Would you kindly favour the Committee with your views on the following recommendation made by the Marwadi Chamber of Commerce in this connection:—

(1) There should be along with the schedule of joint stock banks, in the Reserve Bank Bill, a schedule of shroffs and indigenous bankers to whom the financial facilities given to joint stock banks should also be given;

(2) The shroffs or indigenous bankers included in the schedule should conform to a prescribed standard;

(3) The account books of the schedule shroffs and indigenous bankers should be periodically inspected by examiners appointed by the Reserve Bank;

(4) The shroffs or bankers should be allowed to carry on the business of commission agents along with that of banking; and

(5) They should be prohibited from trading on their own account?—Any concern private firm or otherwise which wishes to be placed in a schedule in the Reserve Bank Bill similar to that relating to joint stock banks should in my opinion be subject to legal conditions regarding its business similar to those ruling in the case of the joint stock banks; moreover the business of such concerns should be strictly confined to banking for it is *bank endorsed paper* the Reserve Bank would wish to re-discount and the affairs of any scheduled firms should be open to the closest scrutiny.

8459. In connection with your scheme of selection of candidates for appointment as probationary assistants in the Bank, it has been suggested that it is desirable with a view to obtain most competent recruits and to avoid public criticism the recruitment should be based on a system of competitive examination written and oral, the latter largely to enable the Bank authorities to judge of personal appearance, speech, deportment family connections, etc. Would you kindly tell the Committee whether you agree with this suggestion?—I agree with the suggestion and as a mater of fact it has been put into practice for some years now in Calcutta and Bombay, with very satisfactory results to the Bank. Madras procedure is being brought into line with that elsewhere.

8460. It has been stated that the privilege of handling Government moneys may be given to joint stock and co-operative banks at places where there are no branches of the Imperial Bank and that such a system prevails

in the United States where at places which have no Federal Reserve Bank or its branches, the Government approves of certain National Banks to be depositories of its funds on such banks lodging collateral in the shape of Government securities, bonds of federal land banks or some other designated security up to an amount fixed by the Government treasurer. Would you kindly favour the Committee with your views on this suggestion?—Prior to the incorporation of the Imperial Bank of India it was the practice of Government to allow certain Government or *quasi*-Government balances to be deposited with approved banks on their depositing security to cover those balances. I would have no objection to such deposits being made with approved banks against suitable security but the agreement between the Imperial Bank and Government would have to be suitably amended and any such arrangement would have obvious drawbacks from Government's point of view. Under present conidtions the treasury balances are mobilised in a bank whose charter is designed to secure the safety of those balances by restricting the class of business which may be undertaken and by the presence of 5 nominated Governors on the Board as well as the reservation to Government of the right of appointment of the Managing Governors. Mobilization of balances under such conditions ensures their most economical use under favourable conditions of safety and efficiency. To distribute the balances amongst several banks would in my opinion be a backward step leading to a deterioration of Government's treasury position.

8461. It has been stated that there is no co-operation between the Imperial Bank of India and the other joint stock banks in the country and that it would be to the advantage of the banks, if a Bankers' Association were formed by the Imperial Bank on the lines of the Exchange Banks' Association where questions affecting common interest of the banks including the Imperial Bank may be decided. Would you kindly tell the Committee your views on this suggestion?—It is not the fact that there is no co-operation between the Imperial Bank of India and the other joint stock banks in the country. Not only do we give advances on very favourable terms to such banks, but it is my experience that the leading officers and Directors of most of such banks discuss in the most friendly manner matters of common interest with senior executive officers of the Imperial Bank. My own opinion is that this relationship between the Imperial Bank and other banks is preferable to what would exist were a Bankers' Association formed of which all would be members. Such an association when the time is ripe for it should be confined to banks of more or less equal standing doing similar business and having the same problems to face. If the Imperial Bank was a member, it would I think dominate the deliberations to an undesirable degree and the healthy development of the smaller banks by their own efforts would be retarded. All the advice and assistance which the Imperial Bank can give is available under present conditions and I would therefore prefer to see the other banks form their association on their own initative and conduct its affairs in their own way.

8462. It has been pointed out by a witness that the Imperial Bank agents are now agents of not only Indian Insurance Companies but also of foreign Insurance Companies and that with a view to help Indian Insurance Companies it must be provided that agents should take up the agency of only Indian Insurance Companies. Have you any observations to make on this suggestion?—This is not so—the Bank, not its Agent, acts as agent for certain Insurance Companies in order to facilitate its own

business. The arrangements under which the agencies are conducted are of old standing and have proved very satisfactory to us. The suggestion that the Bank should be debarred from acting as agent for other than Indian Companies means a restriction on business which is most undesirable—as with other people we wish to do our business in the best possible market unfettered by unnecessary restrictions.

8463. It has been pointed out by one prominent Indian banker that at present a joint stock bank does not go to re-discount its bills with the Imperial Bank as that would be taken to mean that the bank is in financial trouble. Such rediscounting is considered to be the last resort which a bank takes and it is alleged that such action affects their credit. It is suggested that if the Imperial Bank could discount the bills of the joint stock banks at a lower rate than they do for merchants and traders, the public will associate such rediscounting with the privileges accorded by the Imperial Bank and the joint stock banks would be more willing to avail themselves of the privilege. Could you kindly favour the Committee with your views on this point?—I do not think that any reduction we could make in favour of joint stock banks would induce them to tender their bills for re-discount with us. The real objection to such re-discount business is not the disclosure of the discounting banks' business to the public but the disclosure of it to the Imperial Bank. Our discount rates are already on rock bottom level, any reduction in favour of rediscount business would place it on a non-paying basis.

Further in my experience it is not because of the rate of discount that join stock banks do not rediscount bills with us but because it is simpler for them to borrow by loan against Government securities and repay the loans, or part of them, as they are able. They desire to benefit by reducing the interest they pay to us immediately they have any surplus funds and it is more difficult for them to do this if they obtain the accommodation by re-discount.

8464. Some figures were given by Sir Norman Murray, Managing Governor of the Imperial Bank in the course of his evidence before the Hilton Young Commission, showing deposits, advances, overdrafts, etc. distributed as between Indian and non-Indian clientele of the Imperial Bank. In view of complaints of alleged preference to non-Indian customers, would you kindly supply the Committee with a statement bringing the figures supplied by Sir Norman Murray up todate?—I will have the statement made up to date and forwarded to you.

8465. It is said that none of the organised banking institutions of the country gives any direct assistance to the agriculturists and that the Imperial Bank of India has recently begun at a few centres to finance big landlords on personal security with sureties or on the security of the produce or of gold. Would you kindly give the Committee some fuller details of this recent policy of the Imperial Bank, the provinces where it has been introduced and the measure of success it has attained?—The policy of the Bank since its inauguration and throughout India has been to encourage advances at reasonable interest against personal security with at least two good names supported if possible by the hypothecation of goods or crops, also against the pledge of agricultural produce, trade stocks, gold, etc.,—in fact against stocks of readily marketable commodities. This policy has not been limited to big parties, it has been extended to all and

sundry, the only condition being that the borrower is a reliable party and the security suitable in our opinion. From the first considerable reluctance to pledge stocks was experienced, the reluctance being due to a feeling that such a course entailed loss of credit and standing by the borrower; this feeling is however being overcome and each year it is less in evidence. Ten years' efforts on our part have met with a moderate measure of success, they have cost us large sums of money for which we have not yet received any adequate return but we carry on in the hope that the advantages of our system will eventually be recognised more fully and more freely availed of by the large circle to which they are extended.

8466. In commenting on the present position regarding the financing of agriculturists, the Provincial Committees have pointed out the necessity for greater co-ordination between the Co-operative Movement and the Imperial Bank. Two suggestions have been made: (1) In the first place it has been suggested that the Imperial Bank should give cash credit to Co-operative banks during the slack season at moderate rates of interest. This would enable the Co-operative banks to advance money to Co-operative societies and these societies to agriculturists at rates lower than at present. It is said that this would be an advantage to both parties as the Imperial Bank would have wider scope for the investment of its funds during the slack season and the Co-operative Movement would be provided with cheaper money. Would you kindly give the Committee a broad review of the policy of the Imperial Bank in regard to its system of cash credits to Co-operative banks and say how far in your opinion this suggestion of extending the system and reducing the rate is feasible?—The policy of the Imperial Bank in regard to its system of cash credits to Co-operative banks is to grant such facilities on the cheapest possible terms and, to the utmost extent possible provided that the business of the borrowers is conducted in what we consider is a satisfactory manner. In my opinion the business of the Movement as a whole cannot be considered to be conducted in a satisfactory manner—the fundamental principle of true co-operation is lacking—overdues are highly excessive—audit is defective—control is inefficient—the credit of the movement is chiefly based on the responsibility of Government and that responsibility has never, so far as I know been clearly defined. Under these conditions, whilst we are prepared to consider cash credits to co-operative banks against promissory notes of the primary societies, we naturally prefer Government paper and we wish that the credits against promissory notes should be for seasonal purposes and that they should not be used for the long term advances which have been made too freely within the movement. In my opinion we, as the centre of the banking system in India, have a duty imposed upon us not to grant facilities to concerns doing unsound business and it is for that reason that we prefer gilt edged security from the co-operative movement and that I now urge upon you the desirability of an All India Enquiry into the condition of the co-operative movement and the position of Government relative thereto. Provincial enquiries are not effective enough, what is wanted is the higher authority of an All-India body. You will agree that holding these views extension, except on the lines indicated, and reduction of rates I cannot regard as feasible.

8467. In the second place, it has been pointed out by one of the Provincial Committees that co-operative banks can obtain cheaper short-term money than at present from money-lenders during the slack season, if

these monies could be returned to the money-lenders at the commencement of the busy season for use by the latter. It has been suggested that if the Imperial Bank could help the Central Co-operative Banks by means of cash credits to repay the deposits of the money-lenders, it would be to the advantage of the co-operative movement and the agriculturists. Would you kindly give the Committee your views on this suggestion?—If the Co-operative banks are functioning properly I think their borrowings from commercial banks and/or money-lenders should be repaid at the end of the main cultivation season (*i.e.*, the end of the slack season in the commercial money market which is presumably the season referred to in the two questions). The slack season comes to an end when the crops are sold to dealers who are financed by the commercial money market and the funds obtained are available to repay the co-operative banks who should then have more than sufficient internal resources to carry on until the next cultivation season. Any system by which the co-operative banks borrow alternatively from the money-lenders and the commercial banks would be most dangerous as it would prevent the necessity for the proper liquidation of loans when the purposes for which they are granted are completed and the money is available with the cultivators—a necessity which already is largely ignored by the co-operative banks. Under such a system the present accumulation of 'dead' loans would be vastly added to. The co-operative banks *must* conform to elementary banking principles if they are to continue in existence, *i.e.*, (*a*) their loans must be granted for definite purposes (*b*) the amount of the loans must be commensurate with their purposes and (*c*) within the repaying capacity of the borrowers (*d*) the loans must be granted only when actually required, *e.g.*, at seed time, etc., (*e*) they must be repaid when the purpose is fulfilled, *e.g.*, soon after harvest and (*f*) ample tangible fluid resource must be maintained. Failure to conform to these rules must end in disaster involving the wholesale ruin of the cultivators, for whose benefit the movement was started, or their moral degradation through evasion by fraudulent transfer of their lands, etc., as happened in Burma.

8468. The Madras Banking Enquiry Committee has referred to the fact that the Imperial Bank require Government paper as security for cash credits instead of co-operative banks paper. As other joint stock banks would be able to advance loans against such paper the Committee have recommended that the restriction requiring co-operative banks to deal with the Imperial Bank should be removed. Have you any remarks on this recommendation?—I am not aware of any restriction requiring co-operative banks to deal with the Imperial Bank. So far as the Imperial Bank is concerned I would have no objection to the co-operative banks dealing with joint stock banks, but of course Government, who in an indefinite manner are in some degree responsible for the movement, may have other views on the subject.

8469. It has been suggested by one of the Provincial Banking Committees that it would be more useful to merchants and traders in the mofussil if during the busy season banks operating there would have their offices opened for an hour or so before their usual banking hours and also keep the offices open after the usual closing hours of the bank. Would you kindly favour the Committee with your views on this suggestion?—It is quite a common practice for banks to meet the requirements of the business community in the manner suggested. It is a matter which may safely be left to the discretion of the local Agents.

8470. It has been suggested by one of the Provincial Committees that it will be a great convenience to the internal trade if in the large towns where there is more than one bank or branch of a bank, the Imperial Bank of India would take the lead in the matter of setting up a warehousing company in which banks might hold a controlling interest and that this combined warehouse would be more popular than separate godowns by the several banks. Would you kindly favour the Committee with your views on this suggestion?—Warehouses are an absolutely unsuitable investment for banks' funds and the Imperial Bank should never embark on such an enterprise. If there is the need for warehouses, local capital will normally supply the need.

8471. It has been pointed out that in the jute trade in Bengal a European firm in the mofussil gets buying orders from the Calcutta mills on commission and draws on the mills against the bills of lading of river steamers and railway receipts through the Imperial Bank of India. It is said that an Indian merchant has not this advantage and often suffers from invidious discrimination made against him, as the mills do not arrange advances during transit in such cases. Would you kindly tell us your experience in this matter?—It is true that European firms finance themselves in the manner indicated to a larger extent than Indians do, but this is not due in my opinion to any invidious discrimination made by the Bank or the mills. I think the explanation is that the Indian merchant can finance himself through the Bazaar cheaper than through the Bank and he prefers the elastic methods of bazaar finance to the formal and stricter methods which are unavoidable in documentary dealings.

8472. It has been alleged that some of the agents of the branches of the Imperial Bank in charge of Government treasuries refuse to issue remittance transfer receipts to co-operative banks on the ground that funds which are proposed to be transferred are not for *bonâ fide* co-operative purposes but for purposes of exchange. It has further been alleged that even certificates of co-operative banks, stating that the transfer is for co-operative purposes, are not accepted by the branches of the Imperial Bank. Do you think it is desirable that the agent of a local branch should refuse to accept the certificate of co-operative bank?—I consider everyone has the right to refuse to act on a certificate without proof of its correctness and it is a right exercised by everyone from the Income Tax authorities downwards. An agent of the bank should however only take such a course on instructions from his head Office. The facility of free transfers has been so frequently abused in certain provinces that strong action by us has in some cases been necessary as the Registrar appears almost helpless in the matter. Such action is not only taken in our own interest but also in that of the Indian joint stock banks which do not enjoy the facility of free transfers. It seems to me to be very irregular that the co-operative banks which are subsidised by the tax-payer to the extent of the cost of the co-operative Department and the exemption from income tax, should be allowed to compete in ordinary banking business with commercial banks which have no such advantages.

8473. It has been suggested that, in order to bring the co-operative societies in direct touch with merchants, traders, and indigenous bankers and thereby increase their credit and help them in their general business, but with a view at the same time to avoid competition with the existing joint stock banks, the concession of free remittance transfer receipts for

general remittance business should be given to co-opeative banks and societies in places where no adequate facilities for remittance are available at present. Would you kindly favour the Committee with your views on this suggestion?—I do not consider that the free transfer of funds should be granted except for the transfer of funds used for agricultural purposes by the members of primary societies. There is no reason why merchants, traders and indigenous bankers should profit at the expense of Government (*i.e.*, the general tax-payer) in out-of-the-way places any more than in mercantile centres, and the facility would in my opinion, compete in most places with methods of remittance already in existence or which might otherwise come into existence.

8474. The Provincial Banking Committees have referred in their reports to the recent withdrawal by the Imperial Bank of India of the concession of free remittance up to Rs. 5,000 given to the Bank's customers. It is said that this concession was very useful in spreading banking habit and it has been suggested that with a view to promoting banking in the country a reduced concession of free remittance up to Rs. 500 may be introduced and if the concession is abused, the Imperial Bank may deal individually with any such abuse and that on that account the bank should not withdraw the facilities from the public generally. Would you kindly consider this suggestion and favour the committee with your views?—The matter was very carefully considered by the Bank before it was decided to withdraw the facility of free remittance up to Rs. 5,000. Nothing has transpired since to show that the decision come to was anything but correct.

8475. One of the Provincial Committees has referred to this revival of the practice of charging commission on the cheques of one branch of the Imperial Bank cashed in another. Would you kindly tell the Committee what the practice of the Bank was in this respect in the past and what it is today and whether such a practice would not militate against the development of the cheque habit?—The change recently made is merely a reversion to our former practice under which in common with all other banks exchange was charged on cheques drawn on other branches, with discretion to Agents to vary or forego such exchange. I do not think the practice will militate to any material extent against the development of the cheque habit as the concession, which was granted tentatively, had shown little indication of encouraging the habit.

8476. It has been suggested by one of the Provincial Banking Enquiry Committees that as the work of the Provincial Co-operative Banks develops, the question of arranging finance on the most advantageous terms from outside source will require the services of some one with a knowledge of the money market and of banking finance generally and that it would be useful if the Imperial Bank would permit their local Agent to attend the meetings of the Directors of the Provincial Bank in an unofficial capacity to give advice on any financial question that might arise. Would you kindly tell the Committee how the Imperial Bank would view such a suggestion?—The Bank's Agents are very fully employed in their own business and in many cases it is not advisable that they should take part in the affairs of concerns over which they have no control. We wish however to render every possible assistance to the movement and are prepared to consider proposals of the nature outlined in this question.

8477. The Bihar and Orissa Banking Committee report that a number of complaints have been received from shroffs as well as managers of Indian

joint stock banks about the difficulties experienced in their cash dealings with the Imperial Bank. It is said that if the *poddars* employed by the cashier of the branch do not receive *dusturi*, the cash is generally under-counted or bad coins are mixed with good ones or old coins and soiled notes are rejected without justification or the shroff is deliberately detained. There is also the complaint that the Imperial Bank does not accept large amounts of small change tendered in payments for dues and does not give one enough currency notes in exchange for rupees. Would you kindly make enquiries in this matter and inform the Committee the result of such enquiries?—Very serious notice would be taken by the Bank if any such practice came to its notice. Unless however specific cases are brought to our notice to be enquired into it will not be possible for any action to be taken by us.

8478. The Bihar and Orissa Committee have pointed out that the charges of the Imperial Bank for buying and selling securities are 50 per cent. higher than those charged by banks in England for similar services. Have you anything to say on this point?—I have no information as to the charges made by banks in England for such services. Our charges are however very reasonable for the business done. It is of course necessary to consider *all* the charges made by banks in connection with the keeping of an account before a true comparison can be made and it is obviously of little use to compare one item out of many if one wishes to arrive at total costs. Further there is not anything like the same free market for securities in India as there is in England.

8479. The Bombay Banking Committee have recommended the opening of public debt offices in Karachi and Ahmedabad both of which are centres of considerable financial importance and at which they understand from the evidence tendered before them that a fair volume of dealings in Government securities exists. They recommend that these two centres may also be authorised to issue treasury bills on the advertised rates after acceptance of tenders. The Committee would be glad to have your views on this recommendation?—Karachi is already a Treasury Bill centre. There does not appear to be sufficient investment from Ahmedabad to warrant the extension there. From our own experience, which is considerable, the facilities granted at Karachi and Ahmedabad Treasuries in connection with Government paper are quite sufficient for local needs.

8480. To encourage the cheque habit, the Bengal Committee have made the following recommendation:—Wherever there is a branch of the Imperial Bank, the following payments of sums exceeding Rs. 100 should be made and accepted by Government by cheques payable at the Imperial Bank:—

(*a*) salaries, pensions and other Government payments;

(*b*) purchase money in auction sales conducted by Civil and Revenue Courts and other Government officers; (*c*) land and excise revenue, cesses, income-tax and other Government dues; and

(*d*) deposits made by private persons in Civil, Criminal and Revenue Courts.

Where there is no branch of the Imperial Bank, a court or other Government officer making a payment exceeding Rs. 100 to any private person, should, at the request of the payee, make the payment by a cheque payable at any branch of the Imperial Bank that he may indicate. Would

you kindly favour the Committee with your views on this recommendation?—There appears to be no objection to this proposal. It is however for Government to decide. Payments to credit of Government account, if the cheques are not drawn on the office of the Imperial Bank of India where the credit is made, can only be made after collection of the cheques. In the cases of the G. I. P. and B., B. & C. I. Railways they have given us an undertaking to refund amounts of any cheques returned and in these cases credit is given immediately.

8481. It has been pointed out by the Bombay Committee that the progressive development of local channels of investment should be looked upon as one of the most essential duties of the Agents of the Imperial Bank. At present it is said that indigenous bankers and local traders are shy and hesitate to apply to the local branches of the bank for financial accommodation as they are not sure about the treatment that would be accorded to their demands. They recommend that with a view to establishing regular touch with their local clientele advisory boards should be constituted by the Imperial Bank, as an experimental measure, at branches in a few selected centres, which would be helpful in bridging the gulf that now separates the Bank's branches from those who stand in need of credit. Would you kindly favour the Committee with your considered views on this suggestion?—The progressive development of local channels of investment is and has always been one of the most essential duties of the Bank's Agents for it is obviously in the Bank's own interests that local employment should be found for local funds. As regards Local Advisory Boards I am of opinion that with our present staff of agents whose efficiency and knowledge of local conditions is steadily improving such Boards are unnecessary and in effect would probably be merely the introduction of another party into the transaction of the bank's business. I have discussed the idea with many people in various parts of the country and although it finds favour with some people, the objection is frequently stated that the business of the bank's constituents would no longer be as private as it is at present. Until the stage is reached at which Local Boards of Directors are required I prefer to work through Agents alone.

8482. It has been suggested by the Bombay Committee that in small centres contiguous to places where there are regular branches of banks, joint stock banks, as well as the Imperial Bank of India and co-operative banks may adopt the system of having part-time branches working two or three days in the week, and city branches working a few hours on pay days, all these to be looked after by peripatetic agents who are always on the move. It is said that this system has worked satisfactorily in rural areas in England and may be found helpful in India in developing deposit banking through a net-work of branches of the larger banks. Would you kindly favour the Committee with your views on this suggestion?—Our system of outstations, pay-offices and sub-agencies is worked on the lines indicated in this question.

8483. The question of linking up co-operative banks with other banks has been considered by the Provincial Banking Committees and the position is broadly summarised as follows. The finance required by the agriculturist may be divided into—

(1) finance required for growing crops, and

(2) finance required after the crops have been gathered.

In regard to crops which have been gathered, it is quite possible for members of Co-operative Godown Societies to accept a four months' bill drawn upon them by the Co-operative Godown Societies and obtain finance thereon. The Godown Societies may thereafter, if necessary, discount the bill with a Central Co-operative Bank and the latter in turn with other banks. In regard to the finance required for growing the crops, it has been suggested that it will be a long time before a suitable form of agricultural paper is developed, for there is a chance that the borrower may not grow the crop or that other accidents like drought or floods may destroy the crops. In these circumstances it has been pointed out that there is no immediate prospect of rapid advance in the direction of creating agricultural paper in respect of advances granted to ryots for repayment at the harvest. Would you kindly favour the Committee with your views on this analysis of the position?—This question is a little difficult to follow, but I understand the intention to be that when the crops are harvested they will be taken over by a godown society comprised of the same members as the primary society but with limited liability. The godown society will draw a four months' bill on the cultivator who is a member of both societies, discount the bill with the central bank and the proceeds will be used in reduction of the primary society's dues to the central bank. The central bank will thus have a document which it may tender for discount with a commercial bank. The main difficulty in this proposal seems to me to be the godown society and the reliance that can be placed on the document of title which it would issue. The system of godown societies should greatly assist in protecting the co-operative banks against wrongful disposal of crops and in enabling them to give time to members for repayment, but as stated in my answer to question 8467, the period during which these bills would be available is not the period when the central banks should need to borrow money from the commercial banks. I agree with the analysis regarding the finance of growing crops.

8484. The Bihar and Orissa Committee have made the following suggestion for bringing down the interest rates for marketing finance: "the prevalent system of marketing finance is that the export houses or the commission agents of Calcutta raise money from their own banks or the Burra Bazar and finance those up-country traders or goladars, who have no large capital of their own. These in turn finance the small beparis of village mahajans who buy outright from the cultivators for cash or credit already advanced. This system does not admit of a more direct contact with the central money market nor can credit be expanded as occasion requires, since *none of the cash credits or book accounts* extending from *the Calcutta exchange bank to the village bepari are* negotiable or transferable. *On the other hand if the process were reversed* and the village bepari or *the substantial cultivator could, with the help* of the licensed warehouses, *create a documented agricultural muddati hundi* of six months' usance, which may be *accepted by a registered mahajan,* the bill so created could be discounted in *the central money market.* It will be eagerly bought by the Reserve Bank in case of necessity." Would you kindly favour the Committee with your views on this suggestion and also help the Committee with your advice as to the practical steps to be taken to carry our this suggestion?—The main difficulty in this proposal is that of the licensed warehouse. It would be necessary for

stocks to be graded and those of different parties mixed together. This is a practice which Indian cultivators have consistently set their faces against and was one of the main reasons of the failure of an experiment of a similar nature at Lyallpur. The management must also be an expert one and this costs money. I should like to see further experiments made in this direction in selected localities as the bills created would be welcome in the money market, but I am very doubtful of any general success.

8485. In connection with the financing of the mica industry in Bihar and Orissa the Provincial Banking Enquiry Committee has pointed out that most of the mica is raw material either on its way to the market or in the last stages of production, that there are no banking facilities except what the Calcutta agent and local money-lenders can give and that there is a good scope for the creation of self-liquidating commercial bills in connection with this finance. Would you kindly consider this suggestion and, if it is feasible, would you kindly say whether it will be possible for the Imperial Bank to take it up?—The Imperial Bank is already interested in the mica trade and we are always prepared to consider bills in connection with it.

8486. The Central Provinces Banking Committee has dealt with the glass factories in that province and has reported that one of the factories required a sum of Rs. 25,000 for erecting new furnaces and for making other improvements but could not get money at a reasonable rate of interest. It is said that the Imperial Bank could not sanction a loan as it had no local branch at Gondia to take charge of the goods as security. If the factory were working successfully, could not some arrangement be made by the Imperial Bank for providing the required finance and for safeguarding its interests?—Our experience is that goods such as glass are not a suitable banking security.

8487. The Coorg Sub-Committee appointed by the Madras Banking Committee have pointed out that remittance facilities are very defective in Coorg and that they see no reason why the Treasury should not cash cheques at the instruction of the Imperial Bank, stating a monthly limit in each case, if they are drawn upon the Imperial Bank by approved constituents. Would you kindly favour the Committee with your views on this suggestion?—If Government agrees there will be no difficulty about bank's opening credits for approved constituents.

8488. The Bihar and Orissa Committee have recommended that as part of a general reduction of remittance rates, discount on cheques payable through a bank should be abolished. Could you kindly favour the Committee with your views on this recommendation?—Please see my answers to questions Nos. 8474 and 8475.

8489. The Central Areas Committee have recommended that licensed indigenous bankers should be given concession rates in the matter of remittance for the same reason as joint stock banks are given at present. Would you kindly tell the Committee your views on this recommendation? —Joint stock banks keep credit accounts with us but indigenous bankers do not usually do so and therefore are not in the same position.

8490. It is said that at present in Burma the rate charged by banks is about 2 to 3 per cent. above the bank rate in the busy season and about 1½ to 2 per cent. above the bank rate at other times. As the bank rate itself is high in the busy season, the Marwaris, Multanis and Gujeratis

send their bills to Calcutta, Madras and Bombay to be discounted at better rates. The Burma Committee have pointed out that the Chetties cannot do this because the Imperial Bank at Madras charges 1½ to 2 per cent. more than it charges Marwaris for discounting exactly similar hundis. Would you kindly tell the Committee whether there is any justification in this complaint and if so, how it can be remedied?—The bills sent to Calcutta, Madras and Bombay by the Marwaris and others are for insignificant amounts compared with the Chetty business which is conducted on different lines. The rates charged to Chettiyars are suitable for the business and the parties to it. Some thing more than a demand loan against Government Paper (for which bank rate is quoted) is involved—the loans are for short periods taken chiefly at the height of the busy season —the ultimate borrower will take as much as he can get and high rates are a check on this as well as an assistance to payment at due date so preventing a lock up. Burma is a place where interest rates are higher than in India because practically all the floating loanable capital is imported. Most lenders are non-Burmans and the few Burman lenders charge higher rates than others.

8491. Would you kindly favour the Committee with your views on the question of reduction or abolition of stamp duty on bills?—Heavy reduction would certainly make bills more popular. Under present conditions the duty is evaded by means which place the lending operations on a definitely less satisfactory basis. Also reduction would make it easier to exercise the powers under which currency is expanded during the busy season. The bills should however bear a stamp of an imposing appearance. I have already mentioned the matter of stamps on short currency bills drawn against goods in transit in India.

8492. The Bombay Committee have recommended the grant of increased facilities to indigenous bankers for re-discounting their hundis with the Imperial Bank as one among the various means of popularising dealings in hundis. Would you kindly explain to the Committee the facilities now granted by the Imperial Bank to indigenous bankers in each province for discounting their hundis and whether there is any scope for the extension of these facilities?—We are prepared to consider the re-discount of bills throughout India for indigenous banks. The bills must of course be approved by us and must conform to the requirements of the Bank Act. We are anxious to get these bills and competition forces discount rates to a very low level.

8493. As regards the legal status of railway receipts you are probably aware that under the Sale of Goods Act, these receipts have been placed on the same legal status as bills of lading. Even after this provision has been made, it has been suggested that there is still some difficulty in the use of these railway receipts in connection with the financing of trade, as the receipt gives neither a full nor necessarily a correct description of the goods and is not accompanied by any invoice or descriptive list. Would you kindly tell the Committee whether anything further should be done in regard to these railway receipts so as to place them on a firm, definite and easily ascertainable basis with a view to facilitating the financing of inter-station trade?—The railway receipts should be written clearly in ink and should give the marks, number, contents and weights of the packages.

8494. *Chairman*: Please refer to your answer to my question 8465 based upon the reports of the Provincial Banking Enquiry Committees. It appears from your reply that the Imperial Bank has been giving direct assistance to agriculturists throughout India since its inauguration. Would you kindly tell us whether due publicity is given to the facilities provided by the Imperial Bank in this matter? I am putting this question because only in the reports of two of the Provincial Banking Enquiry Committees is any reference made to this policy of the Imperial Bank?—From the fact that these facilities are availed of throughout India and to an increasing extent, I think they have been given publicity. In many cases, we have gone so far as to publish leaflets in the vernacular and distribute them in the neighbourhood.

8495. Would it be possible for you to send the Committee some figures to show the extent of this direct assistance given to agriculturists all over India, say in 1922 and 1929? That would be useful for our report and we would be able to indicate how these facilities have grown?—Yes.

8496. *Sir Purshotamdas Thakurdas*: I do not understand the word 'agriculturist'. Would you exclude the middleman from it?

Chairman: It would include the big landowner and the small landowner?—Would it meet your point if we sent a statement showing the advances which have been made against agricultural produce which would include everybody from the small agriculturist to people who are helping him by moving his crops, and the assistance given by us in that manner would be direct and indirect.

8497. In that case I would not have any statistics for direct assistance. If you cannot give me any figures for the direct assistance alone, I must be satisfied with what you give me, but I should prefer the direct assistance figures?—I think we could only supply the combined figures.

Mr. Shanmukham Chetty: I think the statistics promised would not carry us very far. If for instance we take the advances given by the Imperial Bank against cotton, we would find that probably in 95 per cent. of the cases it was to the middleman, the trader or factories.

8498. *Chairman*: That is the reason why I wanted the figures of direct assistance; *e.g.*, in the statement for Burma you might put in the whole of the money advanced to the Chettiar firms without any indication as to how much of that money was given to finance the agriculturist?—What I had in mind was to give you the figures about advances in 1922 and 1929 against stocks to everybody.

8499. What about gold? We were told the other day that in some parts of the country the Imperial Bank is advancing money to the agriculturist on the security of gold. Would that come in the statement?—I should include the gold advances in the statement.

8500. The gold advance may be given to the big man who has nothing to do with agriculture. Would it be possible to separate the two?—The gold advances are almost entirely to agriculturists.

8501. Supposing you gave us the figures for advances against gold not exceeding Rs. 2,000 in value, that might be suitable to us. If you cannot give us the figures of direct assistance, I must leave it to you to work out the figures in the best way you think it could be done, the point being

to indicate to us how the assistance rendered by the bank to the agriculturist has grown between the years 1922 and 1929?—I think you can leave it to me to give the best statement that can be given to meet your requirements.

8502. *Mr. Devadhar*: I think in Burma the Imperial Bank helps a large number of Chettiyars for the purpose of advancing money to the agriculturist?—Yes.

8503. Can you give us an idea of the rate of interest at which that money is advanced?—The rate of interest is based on the bank rate; it varies according to the season.

8504. Have you any idea as to the margin of interest that they claim before they advance that money to the agriculturists?—Ordinarily we deal with the big Chettiyars. The money drifts through them to the remotest corners of Burma. It gradually filters down until it reaches to the very small Chetty who does a very small amount of business in a remote part of the place and he charges interest accordingly.

8505. Would it be something like 24 per cent?—I have heard 24 per cent. mentioned; personally I doubt if it is so high as that.

8506. *Mr. Manu Subedar*: Is any record kept of the profession or occupation of the borrower?—I think we know a good deal about every borrower from the bank.

8507. Do you know his occupation also, whether he is actually doing cultivation or is a small merchant?—Yes.

8508. *Dr. Hyder*: I wish to place before you a list of securities which the agriculturist can offer for his borrowings. Everybody knows that the Imperial Bank cannot take land as security and here is a list given by the United Provinces Provincial Banking Enquiry Committee which I am going to enumerate to bring out whether the Imperial Bank does anything after all for the man who really counts in India. The securities that he can bring out are firstly, his cattle. Do you advance on that?—No.

8509. Next, the standing or future crop?—No.

8510. The third is his moveable possessions which consist, according to this report, of his agricultural gear, his household pots and pans or the ornaments of his women folk. Is any advance made against these?—It is made against the ornaments.

8511. So far as I understand, these ornaments consist of a few trinkets of silver and if it be admitted that the ornaments consist of gold, I am ready to admit that the Imperial Bank is advancing on gold; but if the ornaments are of silver and no advance is at present made, the Imperial Bank does not come in.

Chairman: I think the witness said definitely that they make advances on gold but not on silver ornaments. Is that not a fact?—Yes.

8512. *Dr. Hyder*: The next item is "A possible security for debt is personal service." That refers to serfs. Another asset sometimes available to a farmer as security is *jajmani*, the nature of which has been explained. Then some tenants have fruit trees. You do not advance on them?—No.

8513. Then comes the house property which usually consists of a mud hut with a roof of thatch or cheap tiles. You do not advance against that?—No.

8514. Of this variegated collection of assets, it seems that apart from land the cultivator cannot get anything.

8515. *Sir Hugh Cocke*: Could you explain your statement that the advances have cost you large sums of money as a result of 10 years' efforts. That does not mean that you necessarily have any losses?—No.

8516. *Mr. Khaitan*: Are you referring to the expenses you have incurred in starting branch offices, pay offices, etc.?—Yes, we have had a very definite policy of expansion to meet all the requirements of the bank. We definitely laid ourselves to assist the agriculturist and anybody else to whom we could give assistance and that development involved expenditure of large sums of money in many ways before we got any return.

8517. You refer to outlay in the form of establishment expenses?—That is one form.

8518. I do not think you have built offices, godowns, etc.?—We have built office buildings in many places and strong rooms to keep the money.

8519. You have incurred capital expenditure as well as establishment expenditure, stationery and other expenses?—Yes.

8520. When you say that you have not received any adequate return, are you referring to the capital expenditure or, what I may call, the revenue expenditure?—I am referring to the total expenditure.

8521. Did you mean that you have not got an adequate return by way of interest on the capital expenditure or that you have not been able to earn as much as you had to spend on the revenue expenditure?—The return in the great majority of cases has not been, for several years, enough to even cover the expenditure which you have distinguished from capital expenditure.

Sir Purshotamdas Thakurdas: Mr. Khaitan's points will be made clear if I may say, subject to correction, that there are even to-day some branches of the Imperial Bank which show an annual loss in working.

8522. *Mr. Khaitan*: If I may become a little parochial, may I ask if you have made any efforts in this direction in Bengal, that is, to advance money against the pledge of agricultural produce?—We have made very decided efforts in this direction in the place called Narayanganj. I know of two enquiries which were conducted directly to see definitely whether we could expand in that direction and on both occasions the report was that we could not do it.

8523. Therefore so far as Bengal is concerned your experience has been that you do not consider it profitable to expand your activities in this direction?—It is not that so much as that the opportunity is not there.

8524. This kind of work is already done by the other financing agencies working there?—The Bengal Loan Offices are very powerful and very efficient.

5825. *Chairman*: Your reply to Dr. Hyder has disabused me of the first impression I gathered from your answer to my question. My question referred to direct assistance to the agriculturists and you talk of "advances

at reasonable interest against personal security with at least two good names.'' None of these poor agriculturists would be able to produce that security. Then you go on to say 'supported if possible by the hypothecation of goods or crops.' Until the crops have been produced and are available for hypothecation, the agriculturist would not be able to produce that security either?—Yes.

8526. Then against the pledge of agricultural produce, trade stocks; the same consideration applies there?—I think the agriculturist can pledge his stocks.

8527. But he cannot produce his agricultural products until they have been brought in?—That is so.

8528. You do not advance against crop on the ground or on future crops?—No.

8529. Barring the item of gold, your advances are really in the nature of indirect assistance, they are given to the middlemen who may from the money they get from you make advances to the agriculturist proper on any rate of interest they may choose to take?—Yes.

8530. Therefore this is no index of the direct assistance you are giving to the agriculturist, excepting the gold item.

Mr. Lamond: To what part of the country was Dr. Hyder referring?

Dr. Hyder: I was quoting from the report of the United Provinces Banking Enquiry Committee's Report, but the position is the same in other provinces.

Mr. Lamond: In Sind we advance to the agriculturist who brings his paddy to the mills, that is, on his crops.

Chairman: That would not be the agriculturist in general. He can hold to his crops for some time and can himself take it to the rice mill. But my study of the Provincial reports indicates that in most cases he has not got that security to produce.

Mr. Lamond: It depends on the assets of the man.

Dr. Hyder: But the agriculturist in Sind has not got even these items: it is the zamindar who has them.

8531. *Chairman*: We shall get the statistics, but I am afraid it is not an answer to the question. I wanted to find out what the Imperial Bank was doing in assisting the poor agriculturist directly. Excepting gold in no case is there an assistance to the poor agriculturist. It may be to a zamindar or a landlord possessing means and in most cases it is to the middleman who thereafter advances money to the poor agriculturist at such rates of interest as he himself may fix?—That is a general statement, and I would not like you to go away with the idea that all this assistance is indirect and that it is not very material. It is a very great assistance.

8532. In a way it is an assistance, but whether it is great or not of course depends on the interest which the person who gets the money from you charges to the poor agriculturist to whom he renders financial assistance. Supposing you lent to a man at something like 8 per cent. and that man advanced to the agriculturist at 24 per cent., the amount of assistance to the poor agriculturist would be negligible?—Yes.

8533. *Sir Purshotamdas Thakurdas*: You lend on kapas in ginning factories to people who own these factories, *e.g.*, in Khandesh, Gujrat,

Broach and in Berar and an instance like the one mentioned by the Chairman may be an exception, because there is competition among the ginning factory owners themselves to attract kapas. The agriculturist takes kapas into the ginning factory and the owner of the factory charges the same rate as the Imperial Bank charges him. The problem therefore is not quite so simple as it may look. The middleman is there for the reason that the agriculturist has not the good name or the security to give. He has to pay 2 or 3 per cent. extra, because there is competition among the middlemen themselves.

Chairman: We have the middleman's rates given in the Provincial Committee's reports and what I was saying was based on a study of them. The case in Khandesh may be an exception and the other one may be the rule.

Mr. Shanmukham Chetty: So far as the financing of cotton in Madras is concerned, the same thing prevails. There are ginning factories spread all over the country and the agriculturist brings his seed (cotton) directly into the ginning factory, he stores them there and the owner of the ginning factory gives an advance ranging from 75 to 85 per cent. of the value of the kapas and in at least 50 per cent. of the cases the ginning factory owner charges the same rate as the Imperial Bank does where he gets an advance from that Bank; and I should say that in most cases the rate charged to the agriculturist does not exceed 12 per cent.

Chairman: That may be in the ginning of kapas. What about agricultural produce in general?

Mr. Shanmukham Chetty: This can be said to be a universal rule so far as the purchasing of cotton is concerned in South India.

Lala Harkishen Lal: In the North the cotton is bought out by the gin owners.

Chairman: Even in the south it would not apply to the other crops.

8534. *Mr. Shanmukham Chetty*: At least so far as the financing of the cotton crop is concerned, in the south the agriculturist is getting a fair amount of the benefit given by the Imperial Bank to the middleman?—I may say that applies very largely to the main grain centres or grain *mandis* as you call them in the North, including the Punjab.

Sir Purshotamdas Thakurdas: The only point I was trying to make out was that there is a common policy applicable to all over India and to every trade. I mentioned cotton as one of the major articles in the financing of which the Imperial Bank does play a very important part. It is quite possible that in the North this system is different to what it is in the South.

Chairman: Therefore it is not in every part of India.

8535. *Sir Hugh Cocke*: Would not the same principle apply to other crops generally owing to the fact that there is competition between the middlemen? I should imagine that competition would bring the rate down?—It is quite typical almost all over India.

Mr. Devadhar: I hope you will agree that with a view to bring down the rates a more useful method would be to bring these members who want to have the benefit of your advance under the auspices of any co-operative organisation, that is, if they are members of a co-operative society and if they have got their finances on the pledge of their goods and if the Imperial

Bank were to give the benefit of the advances to that particular institution, would not more benefit be placed within the reach of the members?—Yes.

8536. In that case co-operative organisation would be more entitled to consideration at the hands of the Imperial Bank?—I think co-operative institutions do receive every consideration.

8537. At present the difficulty is your bank cannot give advances for periods exceeding 6 months as the constitution stands at present; but would it not be possible to consider the special circumstances of agricultural demands and have special provision made for such advances? I mean by modifying the Act to enable the bank to extend the period of the loans?—It is possible, but I would stop there.

8538. Would you consider it very risky?—I consider it inadvisable.

8539. Is it risky even with the security of the produce?—I do think it is risky.

8540. On the question of advances I take it you will have no objection to the extension of the period of advances on some other security?—I prefer advances short term; six months is very reasonable.

8541. Are you in favour of bringing it down to 3 months?—No.

8542. *Sir Purshotamdas Thakurdas*: On the security of the produce there is no objection to the advances being renewed if the produce is still there?—That is so, provided that advances are running off seasonally.

8543. So the period may even extend to one year by a renewal?—Yes.

8544. *Mr. Sarker*: You said that loan offices in Bengal are efficient organisations for granting loans to agriculturists. Do you finance them?—We have had business relation with them and I think probably at the present moment they have small advances from us.

8545. How much have you advanced to the loan offices for the last two years. Can you give us a statement of your total finances without giving any names?—Yes.

8546. *Chairman*: This is what the Bombay Provincial Banking Enquiry Committee say. "The Imperial Bank of India has recently begun at a few centres to finance large landholders on their personal securities with sureties or on the security of their produce or of gold.". This statement made in the Bombay report is in conflict with the answer that you gave me yesterday?—I think the few centres referred to therein must refer to all our branches at the Bombay circle.

8547. *Chairman*: In regard to the working of the co-operative movement you say audit is defective. May I ask you what is your reason for making that statement. You are aware that the system of audit is prescribed in the Act and has to be conducted by an authority prescribed by the Registrar and there have been investigations into the affairs of co-operative societies and banks in most provinces. There has practically also been an all-India enquiry conducted by the Royal Commission as late as two years ago and we have got their findings on the particular matter but so far I have not seen any suggestion that the audit is not effective?—My authority is the reading of these reports themselves. So far as I can judge from the reports the auditor goes round, examines and audits the accounts but he does not go much further than to report whether the documents are in order. He does not go in to say whether anything more than a promissory note is held as security. He does not go into the position of the parties thereto.

8548. Are you referring to the audit of primary societies or of the banks?—The particular audits to which I refer are of banks.

8549. If the auditor is not called upon to do so by the Act, it is not a defect on the part of the auditor but it may be a defect in the system, the basis of the system being the unlimited liability of the members and therefore the ultimate security is the unlimited security?—The basis on which the movement has developed during the last 25 years namely unlimited liability has been a snare in my opinion. What has happened according to my understanding and reading of this movement is this. The primary society was the first society that was started. That was the basis of the co-operative movement. It was a narrow circle, say, in one village. Some of the members had money to lend and they lent it to the society and also borrowed from the society and there you had the true co-operation where the lender was in touch with the borrower and he watched that money and saw that he got repayment at the right time according to the terms of the debt which was a very great safeguard. I think the next step was to found central banks, very often in towns. These banks were formed in order to help the primary societies with money. In the nature of things, they could not watch borrowers so closely as the lender in the primary society, as they are miles away. The central banks receive large deposits from the outside public who again have even less facilities to watch the borrowers and they receive these deposits very largely because of the idea that the Government is in some way behind them. So you have the false position which exists to day. Very large deposits are received by these banks from the public because of the Government connection and that money is lent out to the borrowers who are not properly supervised, with the result that if you read any of these annual reports of the co-operative societies, you find that the overdues of the primary societies are mounting up steadily and several of these primary societies who are in a bad way are being wound up. My view is you have not got the supervision which is necessary for the lending department in this movement.

8550. Generally speaking a central bank does not lend to individual; it lends only to primary societies. Therefore in regard to the loans made by it is concerned only with the solvency of the primary society. I am not aware of any single case of a central bank having come to grief during the currency of the co-operative movement. It is the primary society that has come to grief. Outstandings which are large occur fundamentally with the primary societies. If the central banks had not come into existence, there might have been some difficulty in the case of the primary societies. The central bank is a super-organisation. It takes proper security for the loans it makes. But then the trouble is at the bottom and not because of the creation of these central banks. That is the state of affairs as disclosed in the report of the Royal Commission on Agriculture and they have made certain recommendations how this difficulty is to be met. But there has been no complaint of defective audit because the trouble is wholly in the case of primary societies. It may be that the unlimited liability may not have been properly assessed and therefore a number of primary societies have come to grief?—I think if you will refer to the history of the Burma Bank which is now in liquidation, you will find that the crash was caused because of the losses which it sustained through its advances to the primary societies.

8551. That is not a central bank. You are referring to the Apex Provincial Bank. I know the history of the Burma Bank very well and because a particular bank came to grief and it was not properly managed I suggest that it does not lead to generalisations of the character which you have made. I might also refer to the case of the Central Provinces Apex Bank. That also at one stage very nearly came to grief for special reasons, but in the case of the Central Provinces, the Government went to its rescue and they have never regretted that. They have got back all their money. It was a temporary phase. The local Government went to the assistance of the bank and it gave guarantees and overdraft and I think in about 5 years the bank repaid the whole amount of Government dues and now is in an absolutely sound position?—If you read these reports that I have already referred to, you will find that very much the same conditions exist elsewhere. The overdues are increasing.

8552. If you had begun by saying that the establishment of these primary societies has been an error, then it might not have been necessary for me to pursue the matter. It is possible to reduce the outstanding by enforcing the unlimited liability, but difficulties arise not from the organisation at the top but from these primary societies and the Royal Commission on Agriculture have recommended that the only solution is better education and marketing?—Yes.

8553. You again say "that as the centre of the banking system in India we have a duty imposed upon us not to grant facilities to concerns doing unsound business". Naturally I expect you to establish these propositions. We have also had the investigations by the Provincial Banking Enquiry Committees and they certainly do not reveal that the position in the co-operative movement is getting worse from year to year. Generally the position is considered to be better than it used to be years ago?—I am afraid I cannot agree with that view.

8554. I ask you to substantiate your position and you cannot place before me anything more than what you have said with regard to the position of the Central Banks and their system of audit?—I stated why I consider them to carry on their business on unsound lines. What I say is that these Central Banks who advance money know nothing about the eventual borrower. They ought to know about the borrower. The Apex Bank in Burma was lending to these primary societies direct and went on lending money without taking proper precautions to see that the money was repaid. They often do not get even the interest on their loans. They simply added interest to the loan and it went on piling up this way and ultimately the bubble was pricked. Government went into the matter and found that in many cases they could not even trace the primary society, the members having disappeared.

8555. My answer has been that you cannot judge of the whole movement by what happens in a particular instance. I can tell you of other instances where banks are paying high dividends and therefore my suggestion to you is that you cannot make generalisations with reference to what has happened in the case of a single bank?—The Burma Provincial Bank was paying high dividends and it was apparently flourishing up to the last moment.

8556. It may be, but their management must have been bad. You know the Alliance Bank of Simla went on paying dividends up to the time of its crash. My suggestion is that it cannot lead to any generalisation?—I

refer you to these various reports. The last one I read was that of the Bihar and Orissa Government. The Governor himself said that the increasing amount of outstandings has been causing more and more anxiety.

8557. But that anxiety is expressed only in the case of primary societies. As it is, there is no outstanding in the case of the Central Banks?—May I read to you an extract from the Government Review of co-operation in the Central Provinces as published in the "Times of India", dated the 17th September 1930. "The Local Government's resolution dealing with the report on the working of Co-operative societies in the Central Provinces and Berar during 1928-29 just issued (September 1930) says that the outstanding feature of the year was the failure of crops in the northern districts owing to the severe cold and frost in February 1929, which destroyed the hopes of a good rabi harvest and intensified the economic distress brought about by the failure of crop in the two preceding years. This situation in agriculture affected the co-operative institutions. The chief defect of the movement in the province in the view of some critics was the tendency to regard the central bank, not as an agency for financing co-operative credit, but as the unit of co-operative administration, and to consider that if a central bank was flourishing its financial position secure, its credit good and its profit regular, the movement must be flourishing in the area over which its operations extended, though the spirit of co-operation might be entirely lacking among the members composing primary societies in that area. The Government therefore welcomed any development which would counteract that tendency and focus attention upon primary society as the real unit of the co-operative movement."

8558. *Chairman*: But I am referring to it from the point of view of banking. Your advances are given to the apex banks or in some cases to the Central Banks; therefore from the banking point of view, we are concerned with the soundness of these institutions. We know that the defect you refer to is there. It was brought out by the Royal Commission on Agriculture and they made recommendations as to how that defect was to be removed. That does not mean that the institutions going to you for assistance are in an unsound condition?—I think that the primary societies are not sound. In any case the people who lend money ought to be there to see that money is properly used.

8559. If people lend money to the primary societies, why should not they be in sound position?—The position has come more and more to light through the operation of the co-operative banks. If a primary society were operating in a place without any organisation, the chances of its going astray without being detected would be much greater. But if there is a central body to look after them, there can be no risk. In fact one of the remedies suggested is that these central bodies should exercise a greater supervision over them?—I do not altogether agree with you, I think that the great safeguard to the business of the primary societies is in the society itself, *i.e.*, that the man who lends the money should be there on the spot to see that the borrower fulfils all the conditions.

8560. So you object to the whole of the Co-operative system. In your opinion the primary societies should only lend money to the extent that they can raise the money locally?—You go too far. I do not say that primary societies should not borrow money from outside. They are now lending too much money which is not their own; therefore the incentive to see that their money is lent out properly is destroyed to a certain extent.

8561. *Lala Harkishen Lal*: You are arguing as a bank, but the Chairman is taking a sympathetic view on behalf of the borrower?—I will read out to you an extract from the report of the Central Areas Banking Committee (paragraph 117, page 225, Chapter XII). "By far the worst feature of the present situation of the organisation of the central co-operation banks in the Centrally Administered Areas is the feeling of irresponsibility among its officials and managing bodies for anything that goes wrong. In theory the Department is responsible for nothing except propaganda and audit; in practice it does everything. None of the Secretaries or *ex*-Secretaries of the Central Banks who tendered evidence before the Committee seemed to realise that the management of the central bank was entirely responsible for all its internal working and that while the central bank had no right to dictate to primary societies the amount to be lent to individual members, it was not only within its right to make its own enquiry into the financial status of a society, but that it would be failing in its duty if it did not ask for inspection of any of its affiliated societies whose soundness it had reason to doubt."

8562. *Chairman*: That brings out my point, if I may say so; that is, under the system of Co-operation which has been in force in India under an Act of Government, the Central bank is not concerned with primary societies. It is undoubtedly concerned with the financial position of the primary societies as a whole?—As I said at the beginning, the movement has advanced too rapidly and on the wrong lines.

8563. Then you go on to suggest an all-India Enquiry. I should like to know what sort of enquiry you have in mind. Quite recently we had an enquiry by a Royal Commission composed of people who did not belong to this country and that Commission went into the matter and made unanimous recommendations. We have also got the reports of these Provincial Banking Committees and we, as an all-India Committee, have to pursue the matter further. The Royal Commission on Agriculture definitely opposed the idea of an all-India Enquiry since they had examined the whole position themselves so thoroughly. Even so, there have been enquiries by these Provincial Banking Committees which after all are in a way independent of local Governments and further, this Committee will have to deal with the reports of these Provincial Banking Committees. Now what are the lines of the enquiry which you consider to be desirable?—I should like an enquiry into what was the original basis and the original idea of Co-operation in India; what are the true conditions under which co-operative effort should take place, whether the progress of the Movement in India has been on the right lines and whether the supervision at present exercised over the Movement throughout India is effective whether the Movement is supervised by people who really understand it.

8564. So those would be the four points on which you would like to have an enquiry made?—If you like, I would enlarge upon them in writing.

8565. What would you say if you were told that these broad aspects have already formed the subject of enquiry by the Royal Commission who have made definite recommendations about these various matters?—I shall ask if any of these recommendations has been carried out.

8566. I can tell you that the Government of India have passed orders and the local Governments would gradually be giving effect to those orders.

As a matter of fact the Government of India have already passed orders with regard to the wider recommendations of the Agricultural Commission and the Provincial Governments are taking action in that direction. I believe that a blue book was published by the Government and placed before the House of Commons.

Dr. Hyder: Yes, that is so.

Witness: I would like an enquiry by a special body appointed for the purpose to enquire into the condition and working of the Co-operative Banks independently of whatever recommendations were made by the Agricultural Commission.

8567. But the points you mention have already been investigated by people who know something about these conditions. In fact the Royal Commission on Agriculture co-opted members as they went from province to province. In Bombay they had Sir Chunilal Mehta who knows a good deal of co-operative banking?—I just get back to my original opinion which I see no reason to alter. I do not think that these recommendations have in any way improved the position.

8568. But all the recommendations have not yet been given effect to fully?—I would ask for a Commission the results of which would be more effective and in a very short time.

8569. No Committee or Commission can make its recommendations more promptly effective than the manner in which the Government of the country would give effect to them, because they are not the final authority. For instance this Committee may make recommendations in regard to co-operative banking but certainly it cannot lay down that the measures it recommends should be given effect to forthwith; that obviously is action for the Government of the country?—I would like to make a few remarks. In the first place I would like to say that when I wrote these answers to the various questions, and in particular the one which we have just been examining, I did it after very careful consideration, with all the information I had at my disposal. I admit that you have enlightened me on the subject of the Agricultural Commission having made certain recommendations on the Co-operative Movement; so that I would like to make a suggestion to this Committee that it should investigate as to how far the recommendations made by the Royal Agricultural Commission and the various other Committees on the subject of Co-operative Movement have been made effective and that this Committee should consider what further steps should be taken to make them completely effective.

8570. If I may summarise your attitude broadly it would be something like this: You are not satisfied with the present working of the Movement as a whole and you consider that it is working under a certain element of unsoundness in various directions. That being so, you are averse to further Government assistance being given to it either through the Imperial Bank or otherwise which may be required to enable it to get rid of the defects which have been brought to light either by the Royal Commission on Agriculture or by other Committees. But once the Movement has been put on a more sound footing according to your ideas, you would not object to giving them any requisite assistance?—Yes, broadly speaking, those are my views.

8571. In the meanwhile would you withdraw from the Movement the concessions which it is already enjoying or would you allow things to go on

as they are and not give them any further concessions?—If you refer to the use of cash credits against Co-operative Paper, that must remain as it is at present, *i.e.*, that we will give these cash credits against Co-operative paper provided that the paper is approved by us and credits are seasonal. And, generally speaking the same objections would continue to apply to concessions which the Movement now enjoys.

8572. *Mr. Devadhar*: You said that certain provincial enquiries were not effective enough?—I was referring to the Committees on Co-operation recently appointed in Madras and in Burma.

8573. Do you consider the overdues, which you have referred to as excessive, in any way as one of the necessary indications of unsoundness of the Co-operative Movement?—I think that if they have bad seasons, extensions of loans may to some extent be justified.

8574. How do you expect a farmer who has to pay interest at such heavy rates and who has to stand the competition of people from outside where money can be had at cheaper rates, such as in England, and who has to bear the strain of bad seasons, to be regular in his payment? If on that account he sometimes delays payment do you consider that as one of the necessary indications of his unfitness to be a co-operator ?—I am not dealing with the fitness or otherwise of the farmer as a co-operator. I say that the position of the movement is unsound when the overdues are excessive, and it is in the interests of the Movement itself that I urged upon the authorities the essential unsoundness of the Movement when overdue debts go on mounting up and as they are doing.

8575. Is it peculiar to the Co-operative Movement or would you apply the same standard to commercial institutions carrying on similar business?—If the two cases can be considered as parallel in every way, the same objection would apply.

8576. Take the case of municipalities and other local bodies; their overdues in some cases run up very high, but the Government does not refuse to help them?—I do not know what Government do. I am treating it from a purely banking point of view.

8577. *Mr. Devadhar*: The members of the society can only deal with individuals?—Yes.

8578. In that case where did you find the defect in the method of working?—Supervision by the Central Banks is not effective.

8579. Supervision is generally considered to be one of the fundamental duties and obligations of the financing agency. It is generally recognised that central banks and provincial banks would have their own staff and as a matter of fact, in many cases, a certain proportion of profits is laid aside and some of the provincial banks that finance the central banks make it a condition that for a given number of societies supervisors or inspectors must be appointed by them. Do you think that this rule is followed by all the banks that give loans?—I do not know whether it is followed by all banks or not. The essential point in a primary society is that you have this co-operation in a small village. It is an excellent institution because you have the man there who has lent the money there on the spot and naturally he is watching the borrower and sees that he gets his money back at the right time and that the money is not lost. You have gone further than that, you have gone to the central bank and they lend money to the primary society. I maintain that when the central bank lends money to the primary society, they should take a very close

interest in supervision for they replace the primary society lender in the operations of the primary society members. They have got to do it. In place of the primary society lender you put what we hope to be the expert supervision of the central bank.

8580. You do not mean to suggest that a primary society in your opinion would be the best primary society if it depends upon the local capital it attracts?—I think the best possible thing for them is to be able to work on their own funds.

8581. We have started with the idea that the average agriculturist or about half a dozen of them put together have no money. The material assets which they can offer is their unlimited liability security and on the strength of that they have to negotiate for money. If they had money, we should certainly have not thought of giving co-operative assistance in any way?—It is a small area anyhow where this primary society is founded. You would not debar the man who happens to have some money to lend from doing so.

8582. Not at all. I have a society at a distance of about five miles from here where a member himself has deposited Rs. 50,000 and the society has built up a reserve of Rs. 60,000 in the course of the last 20 years. We keep that ideal before us so far as possible. That society has not borrowed during the 20 years even a single rupee from the provincial or district central banks. It has all the money it needs in deposit?—I think that is a very ideal situation.

8583. We could not say that for all their purposes they get all the money they need and after all, is not our credit a great asset which we could place and negotiate?—I do not object to it provided proper supervision is exercised.

8584. I might tell you that there are several central banks both in the Madras Presidency and here that lay aside something like 8½ per cent. for the purpose of supervision in one shape or other. If you are under the impression that they are neglecting it, I think you would be doing them an injustice—I do not think the supervision is efficient.

8585. You would like them to spend more money, double the staff:—Whatever steps are necessary to make it really efficient I would like to be taken.

8586. When co-operative institutions in out of the way places, where there are no branches of the Imperial Bank, do other than mere credit work, *i.e.*, lending and borrowing of money, would you consider it going out of the beaten track?—It is a very difficult thing to say; do you refer to such things as advances for wells?

8587. I would even include the hundi business, say ordinary commercial business. It has been recognised that what is needed under present circumstances is a regular widening net work of financing facilities. In out of the way places there are big markets, and if there is no branch of the Imperial Bank or any other indigenous bank at those places and if there is a co-operative institution, is it not necessarily one of the duties of that institution to carry on functions over and above mere granting of credits?—I do not think it is necessarily so.

8588. Do you mean that people should starve?—I think that probably you will find the village banker already in existence and I think it

would be wiser to leave it in his hands than put it in the hands of a society which possibly has not the requisite knowledge to conduct such business.

8589. I am not opposed to the existence of the village banker or his business. But the ordinary cultivator generally finds him doubly costly and it has been proved and shown, and you will discover it from provincial reports, that the interest which the indigenous banker charges is far in excess of the interest which is charged by a co-operative society of which the farmer happens to be a member. The co-operative society charges 50 per cent. less?—I think it would be wiser on the whole for the co-operative banker to leave that business alone.

8590. You would not like the co-operative institution to do anything except merely giving money and receiving money?—I should prefer them to stick to that until they are much better organised than they are at present.

8591. When you make that statement, do you rely upon any particular record of the functions of co-operative institutions or banks or societies?—I make it because of my own observations after reading the reports. It is my view.

8592. You probably think it is safe to do that?—Yes.

8593. But if it is shown that some additional functions have also been successfully managed by these co-operative societies, would you say that such a restriction would not be necessary?—If it is proved to be ably conducted I would not object.

8594. In that case, would the Imperial Bank extend to them the same privileges?—If we found that they were doing the same business, we could extend the same privileges to them as we do to others.

8595. The Bombay Provincial Co-operative Bank says that "the Imperial Bank of India's policy in regard to the grant of credits to the co-operative movement has undergone a change for the worse recently." What do you say to this?

Chairman: I have a question on this subject based on the reports of Provincial Banking Enquiry Committees. I understand the Bank is investigating the matter; is that so?—Yes.

8596. *Mr. Devadhar*: The all-India Co-operative Institutes Association have recommended the following concessions and facilities to Co-operative banks: "Accumulated balances in sub-treasuries might be made available to Co-operative banks at a nominal rate of interest to enable them to finance agriculturists against their harvested crops."?—That is a matter for Government.

8597. You have nothing to do with sub-treasuries?—No.

8598. Another recommendation is: "The debentures of Co-operative Lands Mortgage Banks should be recognised as Trust Act Securities for though they have not the guarantee of the Secretary of State, they have the guarantee of the Prvincial Government." I suppose there is no objection to give advance on Trustee securities?—No.

8599. *Mr. Manu Subedar*: You are not against the co-operative movement on its social and other sides so long as you felt that it was going on sound economic lines?—That is so. I say we are very sympathetic,

8600. But there are certain inherent difficulties in the movement about which I should like to ask you. After a primary society is formed, any members may drop out and substantial ones may drop out. That would be a cause of weakness?—That is a very great danger.

8601. There is a rule that the loans given by a primary society to its members should not exceed 12½ per cent. of the assets as valued at the time of the formation of the society?—I understand that is so.

8602. Is that not a very sound rule if it is constantly kept up?—Yes.

8603. If, however, the assets which are so valued are not in possession of the society and if they were in the hands of members with freedom for them to mortgage them out so that the total valuation of the society automatically goes down when such mortgage takes place, it would be a cause of great weakness?—Yes.

Chairman: I may supplement it by pointing out that under the Co-operative Societies Act a Co-operative Society has the first lien on that mortgage and any subsequent mortgage is subject to the lien of the co-operative society.

Mr. Manu Subedar: The mortgage is not taken by the society.

Chairman: The society may or may not take mortgage. If a man has taken a loan from a co-operative society and thereafter he goes and mortgages whatever he has got with somebody else, the co-operative society has the first charge.

Mr. Lamond: What would happen in the case of a sale?

Dr. Hyder: A difficulty would only arise when a member ceases to be a member of the society and then he goes and mortgages.

8604. *Mr. Manu Subedar*: If a primary society can only lend out one-eighths of the assessed value of the whole society and if the position did not subsequently alter seriously, no matter by what causes, there should be no occasion for writing down the society as a defunct one. Seven-eighths of the value would not be lost?—No, if it was properly conducted.

8605. Therefore the difficulty in accepting the paper of co-operative societies as a security for lending money to the movement is that it is not always certain whether it is sound paper. It may be signed by a provincial society and a central bank, but the particular primary society may be one of the weak ones and you would never be able to distinguish whether it is a weak one or not?—That is the great difficulty.

8606. And you do not know what are the real economic assests behind any co-operative paper which may be presented?—That is so.

8607. If you could by any means get to know this, then your reluctance as a banker to make free advances to them would not be so great?—As I say, we are not satisfied about the paper. If we were satisfied, there would not be any difficulty.

8608. *Chairman*: Is it not the paper approved by the Registrar?—They are all approved by the Registrar.

Mr. Lamond: The Registrar simply says the paper is in order. He does not say that the paper is good. He merely gives a certificate of the amount outstanding from the borrower to the co-operative movement. He does not say that the borrower is in a position to pay.

8609. *Mr. Manu Subedar*: You said that the member's own funds in the co-operative movement are low. My own impression is that six per cent. of the total funds are members' funds and the rest outside money. That is co-operation proper, but that is merely the setting up of a machinery for borrowing outside rather than for helping each other. Is it not so?—That is how I regard it.

8610. From the banking point of view, it is a very weak position?—Yes.

8611. Also as the central banks are constituted, the shareholders of the central banks are the primary societies?—Yes.

8612. And shareholders of the provincial bank are the central banks, so that the structure is again raised on the same primary societies, whose inherent economic position appears to be weak?—Yes.

8613. So that the weakness at the bottom is likely to affect all the other structures raised on it?—Yes.

8614. *Chairman*: That assumes that the structure at the bottom is weak. All the primary societies are not financially unsound and Mr. Devadhar told us that the paper is based on sound primary societies?—We hope they are sound, but we do not know.

8615. *Mr. Manu Subedar*: Had you one of your officers borrowed by some Provincial Government to make out balance sheets of co-operative banks as balance sheets would be made out in the case of ordinary joint stock banking?—I have a recollection of that being done.

8616. He must therefore have examined the position as it would strike a banker primarily?—Yes.

8617. If you have no objection, after consulting anybody whom you may want to, could you kindly let us have a copy of the reports made by him?—I think those reports were made to the Punjab Co-operative Department. I doubt if we have them; they are probably in the hands of the provincial authority.

8618. Did such an officer find very great difficulty in collecting the valuation of the assets of primary societies?—I would not like to say that. I would refer you to his report. I do not think I personally ever saw the result of the work.

Chairman: I know that in the Punjab they had a Financial Adviser for the co-operative movement who used to be employed under some bank. I do not know if he was an Imperial Bank officer. I never heard that the position in the Punjab had ever been investigated by an officer of the Imperial Bank.

Mr. Lamond: The examination was only done in regard to book-keeping.

8619. *Mr. Manu Subedar*: We had evidence before us from a gentleman in charge of a co-operative central bank to the effect that the Registrar of that province had prohibited the societies from giving loans against gold as it was opposed to the principles of co-operation. What would you say to that?—It seems to me that in a primary society which is largely composed of villagers, if one villager who is a member of the society has such eligible security as gold, the society might well lend money on it.

8620. *Chairman*: With reference to your answer to question 8472 under the Provincial Committees' questionnaire, the concession referred

to has been given by the Government of India and not the Imperial Bank. Is that not so?—Yes.

8621. Government of India were aware that the concession was liable to be abused and so they ruled that "the buying and selling of remittance was not consistent with the principles of co-operative banking and that the concession had not been made to enable co-operative societies to carry on a commission business". To apply the necessary safeguard they suggested to the Provincial Governments that auditors should check the extent to which the privilege was being used for buying and selling remittances on commission and to bring to the notice of the Registrar instances in which this was being done. My point is this, from what source did the Imperial Bank derive its authority for taking the action which has been complained of in some of the reports of the provincial banking enquiry committees? The concession was given by the Government of India and its cost falls on the Government of India. They realised that the concession might be abused and they laid down certain safeguards and so far as I am aware it did not impose any duties on the Imperial Bank in connection with the grant of that concession. I have been told that the action of the Imperial Bank was taken exception to by one of the local Governments and in that particular province the Imperial Bank had to modify its orders?—That is so. We rather took an extreme line which we considered entirely justified although it might in some quarters be considered as exceeding our authority, but we did it because every other means was ineffective.

8622. I suggest to you in that case your remedy was to go up to the Government of India which was the authority that granted the concession and advise them to take more drastic action in the matter?—That is actually what happened.

8623. Did the Government of India authorise you to take that action?—After considerable time we got the authority to insist upon a certificate that these free transfers were definitely for co-operative operations.

8624. But you are not authorised to go behind the certificate?—If you get a certificate, you have got a right to question it.

8625. If the person who granted the concession said that he was satisfied with the certificate, then my whole point is, what right has the Imperial Bank to question about the certificate. You still thought that the certificate was not having the desired effect and my only point is that it is for you to represent the matter to Government which granted the concession and let the Government of India pass such orders as they thought desirable?—We did both and I do not think that we are debarred from taking such other steps as we think necessary.

8626. That is your view?—Yes.

8627. *Dr. Hyder*: With reference to your answer to question 8476 on the Provincial questionnaire I understood from your statement that you desire that the Central Banks should be in close touch with primary co-operative societies. In the case of your Bank it would be desirable, if you are in the position of a lender, to exercise some friendly supervision and touch with the directors of the provincial co-operative banks?—I think the necessary touch can be attained without the Agent of the Bank sitting on the board as adviser. We are quite prepared to help in any way in this matter.

8628. *Mr. Sarker*: In answer to Chairman's question 8464, I shall be obliged if you will kindly include in your statement in the case of total advances, loans and cash credits made to Indian and non-Indian borrowers separately?

8629. *Chairman*: If it is possible for you to supply this information asked for by Mr. Sarker without any great trouble you might do that. I cannot ask you to commit yourself on that point?—Thank you very much. We shall endeavour to give the particulars required.

8630. *Mr. Khaitan*: In reply to question 8470 of the Chairman you have said that the construction of warehouses is absolutely unsuitable. In view of the opinion you hold do you think it would be feasible to try the scheme propounded by some of the provincial committees, namely, the Imperial Bank with other banks running a warehouse in the locality?—I think the Imperial Bank in common with most other banks would prefer to work as a separate entity in that matter.

8631. Could you in view of the suggestions made by the Provincial committees investigate the matter further and see whether it would be feasible for the Imperial Bank to take the lead and try the experiment and find out whether the suggestion of the Provincial Committees is beneficial?—We are prepared to rent warehouses wherever they are a paying proposition. I will leave it at that.

8632. Would you not think that an investigation in the matter would be better?—I do not think so.

8633. *Mr. Sarker*: In reply to question 8471 of the Chairman relating to the Provincial Committees you have referred to the bazaar rates. Are you referring to the rates given in the Controller of Currency's report?—No. What actually happens in the Bengal jute markets up-country is this, that in the bazaar there is a very large amount of currency notes floating and the Indian merchant is quite prepared to send a man into the bazaar and sell his draft on Calcutta to the bazaar dealer and spend quite a considerable time in collecting those notes in consideration of getting a better rate than that which he has to pay to the Imperial Bank if he went to the latter and got his notes on the spot.

8634. *Mr. Khaitan*: Why does this phenomenon really happen namely, that in the Bazzar a man is able to buy hundis at a cheaper rate than in the Imperial Bank?—Because, as I say, the man is prepared to spend many hours in the Bazaar collecting his money.

8635. My information is that when he goes to an indigenous banker, he at once gets his money whereas if he has go to the Bank to sell his hundi, he has to spend a much longer time.—Mr. Khaitan, I do not question your experience; but it is certainly not our experience. We have investigated carefully as to why these bills go into the Bazaar at all and what I have said is the result of our enquiries.

8636. The mercantile community complain that they do not get this form of assistance from the Bank. Do you think that they would put it forward as a grievance?—I think so, if they thought that in this way they would get it cheaper.

Witness: As regards question 8474 the chief consideration in this matter was that the concession was strictly limited to small amounts of Rs. 5,000. For some considerable time we did not notice that this was

being abused. As time went on, many people realised that they could conform to the strict letter of the concession by remitting Rs. 5,000 today and another Rs. 5,000 next day, and so the concession was abused.

8637. *Dr. Hyder*: Could you not fix a limit that within a year so much would be available for them to be remitted free?—We considered it in all its aspects including such suggestions as you have made and this is the decision that we came to.

8638. Considering that you have a net work of branches of your Bank all over the country, could you not give this facility to your customers, namely that a cheque on one branch drawn in favour of a person residing in another place where you also have a branch may be cashed without payment of any commission?—As a matter of fact our agents have discretion in this matter and according to the value of the account to the Bank they can forego it altogether or not according to their discretion.

8639. But they give these facilities in England?—The fact that no charge is made in England for such services is no ground whatever for the argument that no charge should be made here, because we keep current account free of charge. If they do that in England, they also have a regular half-yearly charge which covers all such things.

8640. My experience is that they not only paid me some money on my Current Account but that they charged me nothing?—You must have had a very valuable account.

8641. Could you not introduce something like this new-fangled Giro system here. As regards the discretion vested in your Agents, I wish to tell you that they use the discretion always in your favour, that is, they always charge the commission.

8642. *Mr. Chetty*: As regards your answer to question 8475, how long was the concession in force before you withdrew it?—From 1921 to 1929.

8643. *Mr. Khaitan*: As regards your answer to question 8477 having regard to this specific allegation made by the Bihar and Orissa Committee, do you not think that it would be better if you circulated this amongst all your branches and pay offices so that they may be warned about it?—The manner in which we regard such practices is so well known and is so strongly insisted upon that I do not think it is necessary to circulate this suggestion of the Bihar and Orissa Committee.

8644. In spite of the strength of this feeling these allegations have been made and accepted by the Bihar and Orissa Committee which is quite a responsible body appointed by the Government and when they make a complaint of this nature, do you not think that it is desirable for you to take a somewhat more serious notice?—I do not think it is possible for us to take a more serious notice than we have been taking.

8645. *Dr. Hyder*: As regards your answer to question 8478, I want to suggest to you that banks in England provide a number of free services, such as keeping your valuables free and your securities free. Could you not as a premier bank in this country make a beginning just in one or two matters?—The charges and the conditions under which we do such business have reached absolute rock-bottom. I do not think we could possibly reduce our charges in these matters.

8646. *Mr. Chetty*: As regards your answer to question 8480. This question arises out of a desire to encourage the cheque habit. Are you aware that it takes an unreasonably long time to cash a cheque with the Imperial Bank of India?—Of course I am aware that people do complain about the time it takes to cash a cheque.

8647. Do you think that the complaint is justified?—I do not think it is unreasonable having regard to the conditions under which banking business is conducted in this country.

8648. What should in your opinion be the ordinary time for which a man has to wait?—I have had to wait for three-quarters of an hour before I could get money.

8649. You know the facilities given in England. Do you not think that delay in cashing the cheque is one reason why the cheque habit is not encouraged?—Yes it may be.

8650. What could the banks, in your opinion, do to improve the existing state of things?—Every bank has done its utmost in its own interests to see that no delay takes place in the matter.

8651. What is inherently wrong in the Indian banks which makes this difference between Indian and English banks?—In London if you go to a bank to cash a cheque, you have to hand it over at the counter to the teller who knows everything about the cheque and on his own responsibility he will pay you the amount of the cheque. I have not yet found any bank in India which could find suitable men for that work here.

8652. Do you mean to say that in India you cannot recruit tellers who could cash cheques on their own responsibility?—No.

8653. Is it because you cannot afford to pay them?—They are not available.

8654. Is there anything inherently wrong in the Indian as such?—They are all coming up gradually. Recently, in the last two years, we have made tentative experiments in this direction and we have authorised certain employees of the bank to cash these cheques for small amounts on their own responsibility. I have no doubt that as they get the training we may at some time arrive at a stage you now find in England.

8655. You say you could not get men who could be entrusted with this work. Have you made any attempt to get men?—I say we are now attempting it.

8656. But how do you come to the conclusion that men are not available who could be trusted with this work?—We have not got them on the staff.

8657. Sir, I asked this question because I know that the delay in cashing cheques is the greatest obstacle in the way of encouraging the cheque habit.

Chairman: Mr. Macdonald's answer is that they have not attempted it in the past because they could not get men but that they have started an experiment in this direction.

Mr. Chetty: Then I take it, Sir, that it is only a surmise on the part of the Imperial Bank authorities that they cannot get suitable men with the requisite qualifications.

8658. *Chairman*: You state that you have discussed the idea of advisory boards with many people in the various parts of the country and

although it finds favour with some people, the objection is frequently mentioned that the business of the Bank's constituents would no longer be as private as it is at present. Would you kindly tell the Committee whether you attach any importance to this objection? If so, would not the same objection apply with equal force to the local boards of your Bank so far as the Bank's dealings with the constituents, at places where the local head offices are situated, are concerned?—I would attach considerable importance to this objection and I do not think that the objection applies to places where the Bank has already local boards for the reason that these places are very large centres. There is not the same feeling which exists regarding one's own private affairs in these big centres as exists in smaller communities.

8659. The Bihar and Orissa Committee have definitely stated that mica is a leading industry of the province and is utterly devoid of banking facilities except what the Calcutta agents and the local money-lenders can give. You have stated that the Imperial Bank is already interested in the mica trade and that you are prepared to consider bills in connection with it. May I know what assistance has so far been rendered by the Imperial Bank to this industry and whether any efforts have been made to promote bill business in this line?—The Imperial Bank has cash credits secured by mica in Calcutta. If the dealers in mica have bills to offer for discount, we are always prepared to consider their proposals.

8660. Therefore the implication arising out of that answer is that so far they have not offered you any bills in connection with the mica industry?—No bills which we could approve of.

8661. *Mr. Khaitan*: You say that the Imperial Bank is always interested in the mica trade. On the one hand the Bihar and Orissa Committee have received complaints and have endorsed those complaints that the Bank is not showing sufficient interest in the matter. Could you do something to show to the people that you are taking interest in their trade?—I have met quite a number of leading people in the mica trade and I do not think there is any ignorance whatever as to what the Imperial Bank would like to do to help the trade; they know perfectly well that we are anxious to discount bills and do what is our business.

8662. If that is so, it is rather difficult to understand why people knowing that it is so should go to the Bihar and Orissa Committee and make this complaint. Surely there must be something still undone somewhere which ought to have been done, because I know merchants will not complain unless their grievance is really genuine?—I think that people who made these complaints before the Bihar Committee might possibly have come direct to the Imperial Bank; they may have done so already.

8663. And perhaps you could not have accepted them as approved parties?—Possibly so.

8664. *Chairman*: As regards your answer to question 8486, even if you had a branch at Gondia, you could not possibly advance money on their goods?—I would not say, possibly; but as a general proposition such commodities are not suitable.

8665. *Dr. Hyder*: There are two small towns in the United Provinces, Ferozabad and another small place where glass is manufactured; why would you not finance their manufactures?—Because glass is fragile. My reply is based on some advances which I made in connection with a small

glass factory in the Punjab. It is generally inferior and frequently unsaleable, and the fact that it is fragile makes it rather a difficult thing to handle.

8666. *Mr. Khaitan*: If every bank considered glass to be an unsuitable security, could you give us some advice as to how the industry can be saved from extinction?—I am not competent to give advice.

8667. *Chairman*: Please refer to question 8490 based on Provincial Committees' reports. The point of the question was that the Burma Committee pointed out that the Chettiars cannot send their bills to be discounted at Madras because the Imperial Bank at Madras charges 1½ to 2 per cent. more than it charges Marwaris for discounting exactly similar hundis. Have you taken into account this fact in your reply? It is not a question of discounting in Burma but at Madras?—I think there is a mistake in the Burma report.

8668. The Burma report says "probably the chief reason is that the Bank wants bills to be discounted where they arise, so that the bank can know the parties." A distinction is made in the case of the Marwaris: that was my difficulty. I daresay you have very good reasons for making the distinction. Would you kindly have the point looked into and send us an answer?—Yes.

8669. Will you please refer to question 8492 based on Provincial Committees' reports: You say 'We are prepared to consider the re-discount of bills throughout India for indigenous banks'. I think you are there referring to indigenous bankers really?—It may be so.

8670. *Sir Purshotamdas Thakurdas*: The question has the word 're-discounting' and you use that also in your answer. I want to understand what is really meant by re-discounting of bills throughout India for indigenous bankers?—As a matter of fact, the terms 'discount' and 're-discount' are very loosely used by custom. They are interchangeable. For instance, in London a re-discount would be where an Exchange bank buys a bill with documents attached, gets it accepted and keeps it in its portfolio until such time as it suits it go to re-discount it. What actually takes place with the indigenous banker in this country is that he merely takes a promissory note from a man to whom he has advanced money and he also keeps it in his portfolio. When it suits him, he will come along and discount it with the Imperial Bank.

8671. That is what is called *purjas*?—It is the same thing, another man would term it 're-discount'.

8672. Therefore the word 're-discount' here has not the same significance as was understood when it was used in the Reserve Bank Bill or as it is understood in England, namely 'bills which are discounted only with the endorsement of a bank'?—That is so.

8673. I mean that you do this sort of discounting practically every day in Bombay; do you not?—Yes.

8674. I do not know what the Bombay Committee had in mind by 'grant of increased facilities to indigenous bankers for re-discounting.' In their report they have not suggested any lines on which they wanted the increased facilities?—As I took it, what they had in mind was that we should extend the limits under existing circumstances.

8675. *Mr. Khaitan*: And perhaps have a larger number of parties?—Quite.

8676. *Sir Purshotamdas Thakurdas*: Then it means that you must add to your list of people whose bills you would re-discount, *i.e.*, the shroffs' list?—That is one direction.

8677. *Chairman*: Please refer to question 8493 on the Provincial Committees' reports. I am very glad to see your answer. Would you be good enough to let us have a note showing the lines on which you would like this transaction to be carried through as it would be very helpful to us in considering the whole question. If it would be possible for you to expand your ideas a bit, I should be very grateful?—Yes, I shall do that.

8678. *Dr. Hyder*: Would you recommend that the railway receipts should also be written on better paper?—Yes.

8679. *Mr. Khaitan*: You say that the railway receipts should give the marks of the packages. In fact our experience in Calcutta has been that if a firm has got to send goods to two or three firms at the same place, the railway authorities have refused to put the marks on the railway receipts so that the goods when delivered to the consignee could be identified. Is that your experience also?—I cannot confirm or contradict it. My impression is that there were very few marks.

8680. *Sir Purshotamdas Thakurdas*: A question was put to you this morning by Lala Harkishen Lal pointing out how the differences between discount rates and bank rates are known in the London money market and how they are not known here. The difference between the two rates is not the same here as in London over a period of years. Is not this one of the main reasons for the difference?—I think it is one of them.

8681. One of the main ones?—Yes.

8682. *Chairman*: You say "the information necessary to conduct a satisfactory banking business in India is available in the great majority of cases if the correct method of obtaining it is followed". Could you kindly tell us what you consider to be the correct method?—I have detailed it in my answer to question 7977.

8683. *Sir Purshotamdas Thakurdas*: In Europe do banks take such concerted action as to compare notes about the standing of parties?—There have been suggestions at various times that some sort of action should be taken. But so far as I am aware, it has never been done. I have no great experience of European business.

8684. I wonder whether the suggestion of this banker referred to in the question was not in the direction of the desirability of having a book of reference, but that would be rather private enterprise than banks comparing notes.

Chairman: It might be an alternative procedure.

Sir Purshotamdas Thakurdas: As a courtesy banks would give the competitor information; they would not discuss anything more.

8685. Please refer to your answer to question 8444, I am following up the last sentence of your reply. On the other hand, to continue different hours would perpetuate the two money markets in India, as one prominent member told us in his evidence happens to be the case at present, namely the bazaar, and the English offices or, as it is called in Bombay, the Fort market. Is it not desirable to bring them nearer so that you may have one money market and identical conditions in both the markets?—It certainly helps in that direction, but I doubt very much

whether the fact that all the banks close at the same hour would have any very great effect in its bringing about more co-ordination between the two markets.

8686. It certainly would disable another bank from stealing a march over the one which is more conservative. Where you have banks, if one bank closes at 3-30 and another works till 4-30, it shows that there is no uniformity in the money market of that place?—If their customers require it, would you not consider it very desirable that they should meet the requirements of their customers?

8687. As soon as you admit that, you admit that the customer of one bank is one class and the customer of another is another class, and the cosmopolitan nature of it disappears altogether?—It very often is the case that the customers of a certain class deal with one bank.

8688. Only in India, not in Europe?—It is so in Great Britain.

8689. In Great Britain the banks close at different hours?—Yes, if you take, say, cattle-dealers, they as a class deal with a certain bank at a certain time.

8690. But would two banks in a place have different closing hours?—You will very often find in large towns where there is a cattle market or where farmers come to sell their cattle, that the branch which serves the needs of that market will be open at different hours to the other branches in that town.

8691. But the Pay Office is particularly devised for the purpose of that show on that market day. All the pay offices which are serving that market would work for the same number of hours?—Probably.

8692. Therefore it is a question of uniformity of the institutions serving it. Take a place like Bombay or Calcutta where you have ten banks, some of them closing at 3 and a few closing at 4-30. This obviously means that there is not any connection between the two money markets and the connections are as it were being drawn apart such as there may be, and if the effort in India is to bring the whole thing into one pool or circle, is it not desirable that the working hours at any rate should, as far as possible, be uniform?—Yes, I quite see your point, but I cannot get over the fact that the bullion market in Bombay works at all sorts of hours and if a bank cares to open a branch there, I do not see that it should be debarred from meeting the requirements of the constituents for whom it opened the branch.

8693. But even the bullion market does not keep open in Bombay?—I was referring to the circumstances under which it might be justifiable to vary the hour.

8694. In India efforts are being made that everything should be more or less uniform and in a small trifling matter like this, if institutions cannot agree to work upon more or less same hours, I am trying to point out that it does not add to the solidarity of the institutions at any one place.

Lala Harkishen Lal:—In the field of banking in England you will find that the hours of various branches do differ at one place, *e.g.*, one bank having ten branches and in two branches hours being different. In India we have felt that merchants want time to correspond with the post. If the post from Karachi or Bombay comes at 12 o'clock, they want the

bank opened at 1 and if the mail leaves at 7, they want the bank to be kept open till 7.

Sir Purshotamdas Thakurdas: Have you varying hours in Lahore?

Lala Harkishen Lal: I tried different hours for the City head offices, but gave it up as the staff would not work.

Sir Purshotamdas Thakurdas: In Bombay the commercial community want uniform hours. The action you have taken in Lahore only supports the Bombay merchants' demand.

Lala Harkishen Lal: We are making certain experiments in the direction of keeping open certain departments at all hours of the day and night in the districts.

Sir Purshotamdas Thakurdas: For special requirements.

8695. *Mr. Rushforth*: Please refer to your answer to Question No. 8445 Would you kindly explain how the lender has the option of repayment?—That is a thing which I think you probably understand.

Mr. Shanmukham Chetty: In Scotland the practice is probably different (Laughter).

8696. *Mr. Rushforth*: By demand deposit rates in the first paragraph of your reply, you mean current account rate?—Yes, I should include that.

8697. What other rates have you in mind for this particular rate towards which the call money rate tends to approximate?—As a matter of fact, it is rather difficult to distinguish these. The call money rates are very often, I think in the majority of cases, loans between banks, so that one bank is a lender and the other a borrower. So the call money rate, regarded from the borrower's point of view, would be a deposit rate and from the lender's point of view, it is a call money rate.

8698. *Chairman*: Would you kindly refer to your reply to my question No. 8447 regarding the admission to the Clearing House, based upon the evidence written and oral tendered to the Central Committee by other witnesses? An important Indian Chamber while admitting the force of what you say in the first paragraph of your answer, has suggested that in order to remove the present impression of alleged discrimination between Indian and non-Indian banks, this Committee should carefully examine the question. Could you supply this Committee, confidentially with the list of cases of banks which were admitted and which were refused admission during the last ten years?—I will make our enquiries to the best of our ability and supply you with the information. Possibly you will be satisfied if we collect the information for the last five years, because you will agree that it is rather difficult to collect the information for the last 10 years.

8699. *Mr. Khaitan*: You know that in India the complaint about non-admission to the Clearing House has almost invariably been made by the Indian joint stock banks?—Yes.

8700. In fact as you have already seen it stated in the question, you are not in favour of discussing that matter, but I am only drawing your attention to it. While the Indian members of the Clearing House voted for that particular bank the non-Indian members voted against it with the result that that particular bank was not admitted into the Clearing House. My point is this, that in India the situation has got to be faced as it is. At all the important places like Bombay, Madras and Calcutta,

the majority of the members of the Clearing House are institutions which are not Indian?—That is so.

8701. Therefore, you see the phenomenon as to whether an Indian institution should be taken as a member of the Clearing House really depends upon the votes of non-Indian institutions?—Yes.

8702. Do you not think that some action is necessary and desirable to remove this difficulty whereby national institutions of this country do not have to depend upon the votes of non-nationals in order to get the benefit of the Clearing House?—In my experience discrimination has never been made on racial grounds. I think I am correct when I say that there have been many applications from European institutions in this country and some have been rejected.

8703. You know that the impression remains in this country that some kind of discrimination is exercised against Indian institutions?—I am aware of that but to my experience there is no foundation for that impression.

8704. You must have also heard that as a result of that impression many Indian joint stock banks hesitate to apply for admission to the Clearing House?—As the impression is a mistaken one I would not pay any attention to it. All I can say is that there is absolutely no discrimination.

8705. But could you explain my difficulty? They simply record their votes without discussing the merits or otherwise of the question. Is that not so?—No, my experience has been that the whole body of the members of the Clearing House openly discuss the matter and then only they vote.

8706. *Chairman*: Please refer to my question 8449 based upon the evidence written and oral tendered to us by other witnesses. It has been represented to the Committee that the opening of a branch of the Imperial Bank at a small place deals a death blow to the already existing joint stock bank in such a town, which is sooner or later compelled to close its branch with the result that in spite of the presence of the Imperial Bank, the district suffers. Would you kindly give us some particulars showing at how many branches during the last 10 years there were already in existence branches of the joint stock banks and whether any of them were closed after the opening of your branch?—I am afraid it will take an enormous amount of labour to arrive at that. I will deal with a typical case and that of Chandausi.

8707. In your answer to my question No. 8458 based upon the evidence written and oral tendered to us by other witnesses you say that any private firm which wishes to be placed in a schedule in the Reserve Bank Bill similar to that relating to joint stock bank should in my opinion be subject to legal conditions regarding the business similar to those ruling in the case of the joint stock banks. Are you here referring to the legal conditions imposed by the Indian Companies Act?—Yes.

8708. *Dr. Hyder*: Since these joint stock banks would have to keep some interest-free balances with the Reserve Bank when it comes into being, would you allow a similar obligation to be imposed on the shroffs who would enjoy similar rights from the Reserve Bank?—I think that would be a reasonable and just stipulation.

8709. *Mr. Khaitan*: In England although there is no law on the subject, still so far as the joint stock banks are concerned they keep a certain portion of their balances with the Bank of England?—Yes.

8710. But still the bill brokers are allowed to rediscount their bills with the Bank of England?—Yes.

8711. It is mostly the bill brokers who rediscount their bills with the Bank of England and not the banks?—Yes.

8712. Apart from the question of wealth and strength, what other distinction would you draw between these bill brokers of England and the indigenous bankers of this country?—The bill brokers are brokers pure and simple while the indigenous bankers are those who conduct banking business.

8713. If there are any class of persons in India to correspond with the bill brokers of England, they are the indigenous bankers?—I think the indigenous bankers do more banking business than the bill brokers by receiving deposits, lending monies and so on.

8714. How will that make them less useful to the community than the bill brokers?—I did not suggest that.

8715. Why should they be placed at a greater disadvantage than the bill brokers in England?—Because they are doing banking business and I think one of the main ideas of the Reserve Bank is that it should be a Bank to which all the banks of the country should be able to resort when it suits them. In order to put the Reserve Bank in a position to meet the demands from other banks and in order to ensure that other banks which include shroffs shall maintain a liquid position to conduct their business a certain percentage of their liabilities must be deposited with the Reserve Bank. If the shroff wishes to be placed on the list of Scheduled Banks I know of no reason why he should be exempted from meeting the percentage deposit. On the other hand if he is not on the list the real question is not whether he is at a greater disadvantage than bill brokers in England but whether or not the Reserve Bank should be permitted to operate in the open market in competition with the scheduled banks. If they were allowed, I do not think the shroffs would suffer in comparison with bill brokers.

8716. When the Reserve Bank Bill was introduced in the Assembly I hope you remember that there was a provision there to enable the Reserve Bank to rediscount bills offered by the indigenous bankers. Is that not so?—I take it from you to be so.

8717. In the Reserve Bank Bill there was no such provision that the indigenous banker should make any such deposit as those contemplated by Dr. Hyder?—I will accept that too.

8718. Do you not think that there is this further distinction between an indigenous banker and a joint stock bank, in that the latter gets deposits sometimes ten to fifteen times their paid up capital and reserves, while the deposits received by the indigenous bankers are almost invariably less than what they are supposed to be worth. Is that not so?—I think that is true.

8719. If that is so, then do you think the same argument would apply in regard to the protection of depositors in the case of indigenous bankers as in the case of joint stock banks?—The fact you mention has a bearing on the question.

8720. *Mr. Khaitan*: You will perhaps remember that in the United States of America because the Federal Reserve Board and the Federal Reserve Banks did not directly deal with the open market and dealt only

with banks, it was found that the Federal Reserve system could not properly bring under its control the money market of the country?—I am not competent to discuss the working of the Federal Reserve system.

8721. You have surely read or heard it?—Yes, I have read it.

8722. Do you not think that it would be in the interests of the Reserve Bank if it should be allowed to deal with the open money market and not restrict itself to the joint stock banks?—Was it not laid down that they would deal with the scheduled banks in India, and if you include the shroffs in that schedule, you are dealing with the outside money market.

8723. The schedule contained banks which would deposit a percentage of their time and demand liability but the Reserve Bank Bill permitted the Reserve Bank to deal with the indigenous banks also?—I accept that statement.

8724. The Reserve Bank was permitted to rediscount hundis offered by the indigenous banks to the Reserve Bank?—Are you seeking to establish that the indigenous banks should not be required to make a deposit? Is that your point?

8725. *Mr. Khaitan*: Yes?—And your real ground is that the indigenous banker trades very largely on his own capital and uses a very much smaller percentage of borrowed capital? Of course his deposits would be correspondingly less.

8726. *Mr. Khaitan*: I am putting before you the other side of the case. This proposal has been made by the Marwadi Chamber of Commerce in order that better facilities may be given to indigenous bankers for the purpose of carrying on their business and also to link them up with the indigenous joint stock banks and the Reserve Bank, so that there might be one organised whole of the Indian money market and this, in their opinion, can only be done if better facilities are given to the indigenous bankers so that in return for that they would submit themselves to certain liabilities that may be specified. But if greater restrictions are placed upon them, they may not find it worth their while to take advantage of the facility offered by the Reserve Bank in the shape of rediscounting bills. The result would be that the indigenous bankers would not be brought into that compact whole to be called the Indian money market which it is the function of this committee to find out ways and means to bring about?—My opinion I have expressed in the answer.

8727. *Sir Purshotamdas Thakurdas*: You say that "the principal weakness in the Indian banking system is the divorce of agriculture from the commercial money market. This weakness can only be remedied by the reorganisation of the co-operative banking system on lines acceptable to the commercial banks so that they can borrow freely from the latter and/or by the commercialising of the indigenous banking system". According to what we heard from you this morning while discussing the co-operative movement, I think it would be a fair inference that you do not expect the co-operative movement to cover the whole field required by agricultural needs of the country in the very near future?—Yes.

8728. Then it is to be done by the indigenous banker?—Yes.

8729. Now the indigenous banker has deteriorated owing to various reasons partly through his own fault and partly owing to his not having any status in the Indian financial market. He therefore has to resort to agency business and speculation. If he agrees to certain checks namely

audit, prohibition from trade on his own account, etc., etc., do you not think that so far as the fixing of the limit by your bank is concerned such people as accept these conditions would go up in your estimation for credit facilities? I look upon the fate of the indigenous banker as of very great importance. If he had his accounts audited in a manner satisfactory to the Government and if he agreed not to trade or speculate, it would increase his credit?—Undoubtedly.

8730. It would not be in his interest then?—I think so.

8731. His interest means the interest of the agriculturist?—Yes.

8732. Therefore we want to know whether you feel that when that check is accepted by him, it is not desirable immediately to take measures to make him a class of banker as nearly approaching your joint stock banks as they are prepared today to accept?—I think it will be a very desirable move.

8733. If it were so stipulated that his accounts should be audited by the auditors of the Reserve Bank or the Imperial Bank or the Government of India it would inspire confidence in the Reserve Bank or the Imperial Bank as the case may be who have to discount his paper?—Yes.

8734. Do you not think that that class of bankers being created and encouraged would serve one of the crying needs of agriculture?—They will.

8735. When the Reserve Bank comes why should not his paper be rediscounted by the Reserve Bank. What is the check which you would want to lay down in order to recognise him practically as a joint stock banker?—Do you not think that an indigenous banker subjected to such regulations as you suggest namely audit of accounts and an undertaking not to trade or speculate would attract much more of our money in the shape of deposits than the indigenous banker does today operating as he does today and if his deposits increase, he should take his share in providing just as joint stock banks do a certain portion of his liabilities in cash?

I feel that it is not very feasible for any single institution or a set of institutions to supply the rural areas with banking facilities required there. The indigenous banker is today the banker of the masses of the people. The question is how to strengthen him and to put him in a position where he may be a very important factor in India. I take it that you agree that it is necessary even without waiting for the Reserve Bank which may take a good few months to devise something of this nature in order to see that these banking facilities are available to the rural areas without avoidable delay?—Yes.

8736. In the course of the examination the representatives of the Marwadi Chamber were asked whether they would, as representatives of the indigenous banking class, agree in return for these facilities regarding the rediscounting of their paper with the Apex Bank to be prepared to take on the restrictions, namely, that they would be prepared to stop the usurious methods of interest, etc. They agreed to this. Do you think that the acceptance of such a stipulation would bring relief to the rural areas?—Yes.

8737. *Chairman*: Please refer to my question No. 8459 based upon the evidence written and oral tendered to us by other witnesses?—I would just like to add that since I answered this question I have learnt that my

reply applies to Calcutta and Bombay only. In Madras the procedure has been slightly different in that it has been not so full and the examination has not been so general.

8738. *Mr. Sarker*: Does the Imperial Bank act as an agent for any Indian insurance company?—Yes.

8739. *Mr. Khaitan*: How many such companies are there?—I can only mention one at the moment.

8740. You have heard that for several years Indian insurance companies are putting forward a grievance that they are not getting the amount of business which they should get in view of their position as national companies?—Yes.

8741. You say in your reply that arrangements under which the agencies are conducted are of old standing and have proved satisfactory to you. You are aware that Indian insurance companies have come on the field only during the last 10 or 12 years. If old arrangements of the bank are not to be disturbed, how would it be possible for Indian insurance companies to get business from the Imperial Bank?—We do not debar any person who has business relationship with us from tendering the policies of the Indian companies.

8742. The question is about the business to be given by the Imperial Bank to the insurance companies. For that purpose you have got long standing arrangements which are working satisfactorily. What would you suggest in order that Indian insurance companies may get better business and a larger quantity of business from the Imperial Bank itself?—You know the value of old associations and business; you know how very reluctant any business house is to disturb any relations which have existed over many years. Personally I should be very reluctant to disturb those arrangements.

8743. Do you not think it is desirable in national interests that some arrangements should be made to give the insurance companies a larger amount of business?—The fact that we accept their policies is quite sufficient.

8744. Why not go a step further and give some of your own business to them?—Because in my opinion old associations are things which ought not to be broken.

8745. If every merchant thought in the same way as you do, would it at all be possible to develop insurance in this country? Yes, decidedly. As I say we do not debar any Indian insurance company. We accept them freely.

8746. If every industrialist and every merchant in India thought in the same way as you are doing, *i.e.*, that none of them should disturb old relations, how would it be possible for an Indian insurance company to develop in India. I am of course regarding you as an Indian national institution?—I think what you are asking the Indian national institution to do is to discriminate on racial grounds to which I think you very strongly object.

Mr. Khaitan: Not racial but national.—Well, that gives the matter another colouring, but it is really the same thing.

8747. There may be high national considerations which would induce a man to act according to a certain line without having the point of racial discrimination in mind?—I have nothing more to say.

APPENDIX.

Industries financed by the Bank.

I. North-West Frontier Province—
1. Tea.
2. Timber.
3. Skins.
4. Carpets.
5. Dried fruits.

II. Punjab (including Delhi)—
1. Coal Merchants.
2. Cotton.
3. Iron and Steel.
4. Rice Mills.
5. Flour Mills.
6. Salt.
7. Salt Petre.
8. Paper.
9. Skins.
10. Printing.
11. Furniture and Stationery.
12. Silk.
13. Timber.
14. Hosiery.
15. Oil Mills.

III. United Provinces—
1. Sugar.
2. Flour.
3. Woollen Mills.
4. Cotton Mills.
5. Jute Mills.
6. Cloth and Yaran Mills.
7. Engineering Works.
8. Oil Mills.
9. Leather Works.
10. Electrical Concerns.

IV. Bihar and Orissa—
1. Rice.
2. Oil Mills.
3. Iron and Steel Mills.
4. Coal.
5. Mica.
6. Sugar.

V. Assam—
1. Tea.

VI. Burma—
1. Rice.
2. Timber.

VII. Bengal—
1. Jute.
2. Piecegoods.
3. Tea.
4. Shellac.
5. Flour.
6. Timber.
7. Rice.
8. Coal
9. Cotton.
10. Pottery.
11. Stone and Lime
12. Spirits.
13. Rope and Paint.
14. Fireclay.
15. Provisions.
16. Haberdashery.
17. Electric Supply Companies.
18. Chemists and Druggists.
19. Engineering.
20. Inland Navigation Companies.
21. Light Railways.
22. Corrugated Iron.
23. Potato Crop.

VIII. Bombay—
1. Cotton.
2. Iron and Steel Companies.
3. Castor seeds.
4. Oil seeds.
5. Motor Accessories.
6. Oil Mills.

IX. Central Provinces—
1. Cotton.
2. Tobacco.
3. Potteries.
4. Gunnies.
5. Ghee.
6. Shellac.

X. Madras—

1. Planting in its various forms.
2. Rice Mills.
3. Sweetmeats.
4. Skins.
5. Jute.
6. Cotton.
7. Provisions.
8. Motor trade.
9. Factories of Cocoanut products.
10. Sandal wood.

The above list is by no means complete and the reports referred to in the question are probably due to the difference of opinion which frequently occurs between lender and borrower.

TWENTY-NINTH DAY.

Monday, the 29th September 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. D. P. KHAITAN.	Mr. W. LAMOND.
Mr. F. V. RUSHFORTH.	Mr. R. W. BUCKLEY.
Mr. MANU SUBEDAR.	Mr. G. K. DEVADHAR, C.I.E.
Sir HUGH COCKE, KT.	Choudhri MUKHTAR SINGH.
Dr. L. K. HYDER.	Mr. R. K. SHANMUKHAM CHETTY.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Messrs. P. R. Srinivas and C. S. Rangaswami, Editor and Managing **Editor, 'Indian Finance',** Calcutta, were examined.

8748. *Chairman*: You represent the Indian Finance?—Yes.

8749. Please tell us a little of the activities of this journal of yours.—It is a weekly journal published every Saturday and it has been in existence for over about 2½ years. It is, if I may say so, the only paper of this kind emphasizing financial and monetary questions and interpreting Indian financial and monetary questions in the light of world developments. Till now there was no attention paid in any kind of Indian journal to the bearings of international financial events on Indian financial problems and I think we have made a modest attempt to give that kind of interpretation.

8750. I have perused with great interest your Banking Enquiry Number of the Indian Finance and I have read again your leading article on the Indian Banking Problem which you have asked to be treated as your evidence before this Committee. I shall put a few questions to you to elucidate some of the points in your memorandum. In regard to the profits of the exchange banks you say that the good old days of large margins are beyond recall and in a later paragraph you say that the advent of new banks has brought about such competition that it may even be wondered whether these banks acquire any profit through their exchange business. The representatives of the Bengal National Chamber stated to us in their evidence that the exchange business is yielding enormous profits to non-Indian companies year to year and on the basis of the difference between their buying and selling rates, *viz.*, 1/16*d.* or 1/8 per cent. the representatives estimated a crore of rupees as profit on exchange business alone. Have you any observations to make on this suggestion?—May I know what this 1/16*d.* refers to.

8751. It is, according to them, the difference between the buying and selling rates of Exchange banks of T. T.—I do not think there will be a difference of 1/16*d.* at all. The difference will be 1/32*d.* If you buy T. T.

for September, the buying rate will differ from the selling rate by 1/32*d.* for this month's position. Similarly, the buying rate for December T. T. will differ from the selling rate for December by 1/32*d.* If the Bengal National Chamber really referred to that difference, it should be 1/32*d.* and not 1/16*d.* The profits of the exchange banks, if I understand aright, do not arise from the difference between the buying rate and the selling rate of T. T. It arises from the difference between the buying rate of bills and the selling rate of T. T. When they buy bills for any position, they like to fix up funds for the same position and they sell T. T. against it and the difference between these two rates represent the interest charges which the bank will make for the 22 days of transit and the three months of the D. A. period and also profit, if any. That margin is not a definite factor at all. It keeps changing with the Bank of England's rate and other considerations. From this I do not see how I could say that there can be a profit of a crore, but certainly the conditions under which exchange banks are doing business in the last ten years have not been the same happy conditions under which they were doing business ten years ago.

8752. Have you yourself ever tried to form any estimate of the profit the exchange banks are making over their exchange business with India, or do you think that it is not possible for a layman or outsider in any case to make an estimate?—As a matter of fact, I did try to make an estimate and I wrote two articles about it in our paper. These articles evoked more controversy than any fruitful results, because the necessary data for arriving at definite conclusions are not available. There are so many transactions which are adjusted in the books themselves. An exporting firm is also an importing firm and all this business does not get reported in the banking circles.

8753. You ended those articles with something of that sort of conclusion? —Yes. It was certainly once a very thriving business, when there was a monopoly among a few banks. The business has also shrunk within the last five years and the number of banks has increased in the last ten years. Some Dutch banks have come over and a Protuguese bank has come in Bombay.

8754. Is the Portuguese bank doing much business?—In a way, it comes in to compete with what is available and certainly there is great competition for rates amongst them now. I think in exchange business you are able to get very fine rates because of this competition. In the old days there was an assured margin which is to-day not there.

8755. You say that if such of the Indian joint stock banks as afforded ample proof of care, prudence and skill in management had received that measure of support from the Indian public which one must expect from a growing devotion to the gospel of Swadeshi, they would to-day have a far more splendid record than they are able to show. Would you kindly explain what in your opinion are the reasons for this lack of support?—In the first place, there is the proverbial shyness of the Indian depositors and in the next place, certain developments have taken place which have tended to emphasise that nervousness of the Indian depositor. The two sets of development I have in mind are: the banking crisis that took place early in the second decade of this century. A good many banks in the Punjab and in the Bombay Presidency came to grief and when the affairs about those liquidations were revealed, they contained particulars which certainly went to shake the confidence of the Indian depositors in the Indian

managed banks. However, towards the end of the second decade confidence was again restored and Indian banks were able to make much headway and this was kept up till 1924 or so. Then owing to the slump that has overtaken all branches of trade and owing to the heavy depreciation in properties that has followed as a consequence, banks are now finding it increasingly difficult to keep up the old scale of profits and even if they make the profits on the old scale, they have to make very large allocations to depreciation, especially against the fall in the prices of Government securities (practically half or 75 per cent. of the profits have had to be allocated to depreciation within the last three or four years) and owing to these circumstances, banks have been unable to maintain their scale of dividends and this goes to create an amount of nervousness among the depositors. In the third place, the Indian depositor has a knack of believing almost anything said about an Indian bank. That is a very peculiar trait and a very disheartening trait. I shall refer to an incident which happened about a year or two ago when a big Indian firm failed in Calcutta and quite a good number of foreign banks lost money on that firm. An Indian bank also had some money involved in the firm, though I understand it was secured. The foreign banks were left unmolested, but the Indian bank experienced a terrific run as a result of that rumour. I only mention this to prove that the Indian depositor somehow at the mere whisper of a rumour or even a very vague or mischievous report begins to have a raid on his account in the bank and this necessitates banks keeping a very large liquid position which in its turn prevents them from making large profits, so that owing to the peculiar mentality of the Indian public we find that banks are not able to make much headway and because they do not make much headway depositors are not getting full confidence in the banks. It is a vicious circle. In the fourth place, deliberate attempts have been made to wreck the credit of banks. Nothing has so far been done by Government—and I think Government ought to have taken action in the matter—to see that frivolous and malicious attacks are not made against banks. For all these reasons, Indian banks have not been getting that amount of support from the public which I think they are entitled to.

8756. Is this shyness and nervousness of the Indian depositor confined only to deposits with Indian joint stock banks?—Yes.

8757. What you said indicated that certain peculiar features in the last three or four years have affected Indian joint stocks more than they have affected, say, the Imperial Bank or the foreign exchange banks?—Yes.

8758. So that it would follow that the shyness or nervousness is displayed more in the case of Indian joint stock banks than in the case of other banks?—Quite so.

8759. Could you tell us why that arises in spite of this devotion to the gospel of Swadeshi to which you refer?—They have not understood that the gospel of Swadeshi also includes Swadeshi banking. The slogan 'support Indian industries' has not caught their imagination to the extent it might have. Certainly Indian banks have been showing fairly increased deposits, but not to the extent they could have.

8760. That is, if the slogan had caught them, perhaps there would have been withdrawal of deposits from the foreign exchange banks and their transfer to Indian joint stock banks?—Or there might have been less money invested in postal cash certificates or more money got out of hoards. The

possibilities of deposits are great in India provided the psychology of the depositor is properly appealed to.

8761. You also referred to the frivolous and malicious attacks upon some of the Indian joint stock banks and I think you observed that Government have so far taken no action to prevent such attacks. What action in your opinion should Government have taken?—I saw a few days ago a press report in which Mr. Dastur, the Chief Presidency Magistrate of Bombay mentioned that before any case is filed about a bank, the matter must be referred either to the Registrar of Companies or to the Advocate General or some such authority and permission obtained before a complaint is lodged. What now happens is that any man can go to the Chief Presidency Magistrate and say that the balance sheet of such and such a bank is not drawn in conformity with the law and the magistrate issues a notice immediately on the bank concerned and we have a press which immediately reports it to the various centres. Even though the thing may end in nothing, even though it may prove, as was proved in this case and a number of cases, that the case was frivolous and had no substratum of truth, much mischief is in the meantime done to the bank. After all, a bank is a very sensitive institution. First the Tata Industrial Bank was attacked like this, then the Central Bank, and then the Union Bank—three banks have been involved in a campaign of this kind—and it is more than 9 or 10 years since this has happened.

8762. Are you fully conversant with the existing provision of the law on the subject?—Fairly.

8763. We understand from a gentleman who apparently knows a lot about this particular matter that as the law now stands, nothing prevents, for example, the Chief Presidency Magistrate from having an enquiry instituted, either in camera or otherwise, preliminary to taking the matter up in open court?—So that it depends entirely upon the pleasure and whim of the magistrate concerned. He may do it or he may not do it. I think the Chief Justice of the Bombay High Court also has in the course of a judgment in a case of this kind clearly stated that the permission of the Advocate General must be taken before any case is filed.

8764. We have seen all that and we have had some discussions on the subject, that is why I asked you whether you are fully conversant with the laws on the subject?—In this connection I prepared a Bill for introduction in the Legislative Assembly long ago, but in the Assembly politics engage much more interest than questions connected with economics or finance. So I could not persuade anybody to take it up.

8765. *Sir Hugh Cocke*: I understand there is an Act in Great Britain in which there is a definite provision that certain people must not go to court without previous permission?—It is in Scotland, if I remember aright.

8766. I am not sure about the details?—I know it is a fact.

8767. *Mr. Shanmukham Chetty*: You spoke of the depreciation in Government securities and the consequent necessity on the part of joint stock banks to set aside a good portion of their profits to this depreciation?—Yes.

8768. Do you think that Indian joint stock banks in particular held more Government securities than is good for them from the banking point of view?—No, because the only liquid security possible for an Indian bank is Government securities. Let us take the case of the Imperial Bank for example. If they are short of cash, they can increase the bank rate to

6 per cent. and go to Government for emergency currency. Let us again take the exchange banks. Their real liquid security is their bills. Whenever there is demand for money, they go and simply discount bills on the London market. But so far as Indian banks are concerned, the only way of keeping a liquid position and protecting themselves against any run is to keep a big portfolio of Government securities and also a cash credit arrangement with a bank like the Imperial Bank, so that in case of a sudden necessity for money, they can draw that money.

8769. What stands in the way of Indian joint stock banks having more of their assets in the liquid form of bills than in Government securities?—I take it that you mean inland trade bills. If I remember aright, the Central Bank has got about 1 crore and 50 lakhs in inland trade bills, the Bank of India has got about 40 lakhs and the Bank of Baroda about 20 lakhs in inland trade bills. They do have some portion of their money in inland trade bills, but owing to tradition, custom and a sense of prestige, there is no practice of re-discounting bills. It is a common thing in America to take your bills and get them re-discounted as soon as there is a demand for money, the same as you borrow against Government securities, the two operations are the same. But somehow in India, as it is perhaps in London, they do not discount bills. In London the Big Five will not re-discount their bills, they will sell them in the market. In the same way, they have neither the system of selling bills nor a system of re-discounting, so that inland bills do not form enough of liquid security.

8770. If an Indian joint stock bank wants funds, we have been told that there is a tendency on their part to take to the Imperial Bank their Government securities. What do you think stands in the way of joint stock banks, under these circumstances, taking their bills first to the Imperial Bank for re-discount rather than ask an advance on Government securities?—You must never forget that the Imperial Bank itself is a competing bank; it is itself a commercial bank. No bank would like to give away the secrets of its bill portfolio to a rival bank. Unless there is a real Central Bank which does not do the same class of business which these banks are doing and to which they can go without loss of prestige or without fear of betraying their secrets, you cannot expect Indian banks to re-discount their bills from the Imperial Bank.

8771. So, even if the Imperial Bank, under existing circumstances, being itself a competing commercial bank, were prepared to offer greater facilities to the Indian joint stock banks for re-discount, you think that so long as the Imperial Bank continues to be a competing commercial bank, the Indian joint stock banks cannot be persuaded to take their bills?—No. As a matter of fact, the market also has a way of thinking that the moment a bank takes its bills for re-discount it is on its last legs, so that no bank would, unless it is very desperate, have recourse to re-discount of its bills with the Imperial Bank.

8772. *Mr. Shanmukham Chetty*: But that idea in the market would not be persistent, if there was a Reserve Bank?—Quite so. The consequence of the establishment of a Reserve Bank would be that tremendous facilities would be created for rediscounting facilities at favourable terms.

8773. Even under the existing circumstances, if the Imperial Bank made an attractive difference between the rediscount rate and the advance rate, do you not think that will be a factor to induce the joint stock banks to have

their bills rediscounted with the Imperial Bank?—My answer is no. Even if the discounting rate is less than the advance rate on Government securities, the Indian joint stock banks will not take it to be a sufficient incentive so long as the competing factor of the Imperial Bank stands.

8774. So you are convinced that even now, under the existing circumstances, the Indian joint stocks banks hold a considerable part of their assets in inland trade bills and with the establishment of the Reserve Bank the joint stock banks would be able to command greater facilities in the matter of re-discounting their bills?—That is so.

8775. *Chairman*: Therefore from that point of view the establishment of the Reserve Bank is a matter of vital importance?—Absolutely.

8776. You are aware of what happened in America, that even after the establishment of the Federal Reserve Bank, there was some shyness on the part of the banks to offer their bills for re-discount at the Federal Reserve Bank?—I would not say that. Re-discounting of bills in America is quite common.

8777. It was the War which broke down the prejudice?—Any new practice will take time to get popular.

8778. This is the evidence of Mr. Benjamin Strong, who apparently was in the best position to speak in the matter, before the Hilton Young Commission. He says, "The prejudice on the part of the banks has been rather deep rooted. Many member banks have a certain reluctance to show in their public statements that they have borrowed money; but the need for borrowing from the Reserve Bank became so widespread as soon as we had the War to finance, that a considerable amount of that prejudice was overcome".—Mr. Benjamin Strong's point is that the banks in that country would not publish the item in their balance sheet, but in India the banks do not fight shy of publishing the amounts "due to agents" in their balance sheets.

8779. *Mr. Khaitan*: I would like to draw your attention to the evidence given by a prominent Indian banker before this Committee. He was of the opinion that the sole reason why the Indian joint stock banks did not go to the Imperial Bank for rediscount of *hundis* was that the Imperial Bank would charge the same rediscount rate to the Indian joint stock banks as it does when discounting *hundis* for parties in the market whether they be *shroffs* or merchants, and that if the Imperial Bank gave a cheaper rate to the Indian joint stock banks, then it would be supposed in the market that it was a special facility given to the joint stock banks and the question of prestige would not arise after that and the joint stock banks would be prepared to rediscount *hundis* with the Imperial Bank. What is your view on that?—I certainly admit that a banker is more competent to speak on a question like this, because I have never been inside a bank, but I still hold my view, that the Imperial Bank, so long as it is a competing institution, cannot function properly in regard to this matter. Take the case of the Bank of France, which is both Central Bank and a Commercial Bank. The other joint stock banks in Paris do not rediscount their bills with the Bank of France only because it is a competing institution. That instinct is bound to be universal, and so long as the Imperial Bank is a competing bank you would not find the rediscounting business to be in an unfettered state. But as a matter of fact if the joint stock banks would be able to get cash

credit facilities from the Imperial Bank at cheaper rates, then that would materially help the former than a cheaper rate of rediscounting facilities for bills.

8780. That no doubt seems to be a good suggestion, but that would not substitute Government promissory notes by inland bills of which you have been talking?—I am inclined to think that you would not get many bills for rediscount even if the Imperial Bank were willing to rediscount the bills bearing the signature of any of the approved Indian joint stock banks, as there is the fear of business secrets being revealed.

8781. What are the secrets that you are thinking of? Do you not think that the people who do business in the market are well known and that the Imperial Bank will not find it difficult to find out facts?—I think the Indian business man loves to do his business in a confidential way.

8782. Let us talk of Calcutta which is a place equally well known to you as to me. You know there are *hundi* brokers (here who call on all banks for the discounting of their *hundis* as they call on *shroffs*) and if the Imperial Bank allowed these brokers to call on them, then do you not think that they will be able to know the "business secrets" that you refer to?—Not all business goes through the *hundi* brokers. Certain names are recognised as guarantors of the banks.

8783. The Imperial Bank would only deal direct with certain guarantors and they would not increase their field of activities?—I do not think that all the business is done through the *hundi* brokers.

8784. That is only done in the case of regular customers. Is that not so?—That is in our opinion by far the bigger portion of the bill business.

8785. Do you think that, if other difficulties were got over, in the present circumstances of India, a portfolio of bills could be considered to be as reliable a way of getting the facilities at times of stress as Government securities would? So far as the Government promissory notes are concerned, the Imperial Bank would advance money, subject to the margin that it would like to keep, against the security of Government promissory notes?—Not always. I know of an instance in Lahore where the Imperial Bank refused to grant cash credit even against the security of Government paper.

8786. Generally speaking the Imperial Bank is prepared to advance money against Government paper subject to the margin and market valuation?—Yes.

8787. Do you think in the case of internal bills of exchange, the Imperial Bank would be prepared to act as freely as in the case of Government promissory notes, without looking into the position of the parties drawing and accepting the internal bills of exchange, especially in view of the fact that we are now considering the question as to whether internal bills of exchange could be treated by an Indian joint stock bank as fluid assets in the place of Government promissory notes, and therefore the joint stock bank should go to the Imperial Bank when it is in need of funds? Perhaps on such an occasion the Imperial Bank would still look into the position of the drawing and accepting parties of the bill. In these circumstances what is your opinion as to whether in the present circumstances of India, the internal bills of exchange could form as good a source of fluid assets as Government paper?—As a matter of fact, from my discussions with some

of the officials of the Imperial Bank, I have to state that they are now scrutinising their bills with a view to make sure that they are not accommodation bills but genuine trade bills arising out of *bonâ fide* transactions. When an Indian joint stock bank, especially when it is in trouble, takes its bills for rediscount to the Imperial Bank, they would not only look at the soundness of the bank but also of the signatures and the genuineness of the bill, whether it is a trade bill or a finance bill.

8788. *Mr. Lamond*: The Indian joint stock banks often require accommodation of a temporary nature?—Yes.

8789. Rediscounting of bills would not suit them in that way, whereas in the case of Government securities they can get loans for a week or ten days?—After all when a bank keeps a portfolio of bills, they keep it on from day to day.

8790. You could not have the same rediscount rate for all classes of bills?—If I understand it aright, the rate is dependent upon the number of days for which the bill has got to run.

8791. That is true. It has been suggested that the rediscount rate should be reduced. Do you think it would be right to have the rediscount rate lower than the advance rates on Government securities. What is your view?—I am not at all in sympathy with the proposal, but I will answer your point in this way. The Imperial Bank lends money on security other than Government securities below the bank rate while it insists upon the bank rate on Government securities. As a matter of fact I know of instances in the case of Imperial Bank where they refused to advance loans on Government paper for anything less than the bank rate, while they have advanced big sums on other securities below the bank rate.

8792. Any rate fixed below the bank rate would be for periods during the slack season of the year. It all depends on the terms of the advance as to what the rate is?—That is so. My point is that the Imperial Bank has not treated the Government paper as the last word in security, as they ought to.

8793. *Chairman*: It is well known that these Indian joint stock banks keep a large sum of money in the shape of Government securities. You must have studied their balance sheets much better than I have done. Do you think that the money they so hold is the minimum consistent with the requirements of safety or do you think it should be possible for them to reduce their investments in Government securities and make more money available, say by investing in industrial concerns?—Owing to the poor state of the trade, industry and commerce in India during the last 8 years, a tendency is noticeable in the case of all the banks to have a bulging portfolio of Government securities. Take the case of the Imperial Bank again. In 1922-23 the Imperial Bank had about Rs. 11 crores in Government securities and only in August last their figure went up to Rs. 32½ crores. This is, however, due to there not being enough sound investments available. This same situation has obtained in the case of other Indian joint stock banks but in their case they have to keep much more liquid resources than the Imperial Bank or any other bank. So I do not think that their investments can be said to be extremely high.

8794. My remarks do not apply to the Imperial Bank because it is more or less precluded from investing money in certain directions but those

limitations do not apply in the case of Indian joint stock banks and my question was therefore directed more to the Indian joint stock banks. Owing to the depression which has taken place during the last 4 or 5 years it has become necessary for the Indian joint stock banks to be more cautious and they therefore keep their balances largely in liquid form instead of investing more in industrial concerns. Is that not your point?—That is so.

8795. You refer to the charts on the backwardness of Indian banking published in your Banking Enquiry Number. They show the position in India regarding deposits, number of banking offices, banking capital and reserve and banking deposits as insignificantly small in comparison with those in other countries of the world. You yourself refer in your memorandum to the existence in India of the so-called indigenous bankers and *shroffs*, who take deposits from the public, enjoy good credit lines with the banks and have themselves a fairly large capital of their own and have played an important part from time immemorial in the financing of internal trade in all its stages and in the affording of accommodation on mortgages or otherwise to those not engaged in trade. In view of the existence of these peculiarly indigenous institutions and in the absence of any reliable figures of their number, their capital and reserves and their deposits, would you be justified in taking these charts which you have referred to at their face value without any qualification?—The charts certainly require modification to that extent and it is a point which we overlooked when we prepared the Banking Enquiry Number.

8796. In any scheme for bringing India into line with other countries of the world in the matter of banking, would you attach more importance to the promotion and development of banks on the western lines which are the institutions that have been taken into account for the purposes of the charts you have referred to than to the development of the peculiarly indigenous institutions, *viz.*, indigenous bankers and *shroffs*?—It is certainly our opinion that banking reconstruction of the future should take into account the position that indigenous bankers occupy in the existing banking system of the country, but so far as any practical steps should be undertaken as a result of the enquiry, it would be better to have an institution on western lines rather than indigenous banks of which we are not able to get any decisive information.

8797. You prefer the development should be more on the type of the banks of the western type, although it is your view that every attempt should be made to keep alive the indigenous banker and link him with the future indigenous banking system?—Yes.

8798. *Mr. Khaitan*: You said that in any banking construction or reconstruction or whatever you may call it, note must be taken of the existence of the indigenous banker and that he should be integrated into the banking system. . . . .—I said that so far as the indigenous banker is concerned, we are up against difficulties and that we do not want that the reconstruction of the banking system, which we have in view, should in any way be delayed by time to solve these difficulties. We want progress to continue; we do not want it to receive any set-back.

8799. Do you not think that the two can go together, namely the improvement in the condition and status of the indigenous banker and the reconstruction of the system which you propose?—They should go side by side. I personally think that when the indigenous bankers develop on proper lines and get the strength that we are contemplating they should

receive, the difficulties would not be great; it would be mainly a question of removing such handicaps as there may be on their activities.

8800. What are those handicaps?—The obscurity that attaches to their position at present, and the lack of any very clear definition of the term 'indigenous banker'. As it is, the term can mean the rural money lender, the *shroff* or anything.

8801. You also said that you would look forward more to the development of banks on western lines?—I do not remember whether that is exactly what I said. If, however, I said that, I must offer a correction. What I said was that emphasis should be more on the types of banks rather than on the number of banking institutions.

8802. *Chairman*: You must have realised what has happened to the indigenous bankers in the Punjab. I believe you have read the report of the Punjab Provincial Banking Enquiry Committee?—I had only a cursory glance at the Punjab Committee's report. I think that Committee realised the importance of this class of bankers, but also realised that his passing away seemed to be inevitable.

8803. Dr. Hyder was referring to the facts brought out in the Punjab Report, namely that the indigenous banker is dying out owing to the competition of the joint stock banks on the one hand and of the co-operative banks on the other; and they say that there are a number of districts without any indigenous bankers at all.

Dr. Hyder: The words are: "His house has collapsed and it requires to be built anew".—I doubt whether it will be built at all. Conditions in the Punjab are so peculiar; branch banking in the province as a whole is on a far more extensive scale than in any other province.

8804. *Chairman*: I realise fully that it is partly due to the extension of branch banking in the Punjab and that has resulted in this particular situation. Would you prefer a development of joint stock banks, branch banks and co-operative banks, the indigenous banker being fitted in and allowed to live so long as there is a necessity for him or till other developments have taken place, or would you prefer that special steps should be taken to revive the indigenous banker to the detriment of the growth of joint stock banking and co-operative banking?—I would prefer the first course.

8805. The Punjab Banking Committee in their report say that the indigenous banker is disappearing owing to the competition of first-class joint stock banks and branch banks. According to them, perhaps in 18 out of the 30 districts, there is at the present moment not a single indigenous banker left. That is the result of their investigations?—With regard to the Punjab, it is not only the increase in the number of branches of banks and co-operative banks which is responsible for the elimination of the indigenous banker. It is also because in the Punjab to-day there is more money than in any other province; owing to the vast colonisation schemes and irrigation projects the province has become enormously rich; the amount of loans required by the people in the Punjab is much less than that needed elsewhere; the economic condition of the Punjab is much better to-day than that of any other province.

8806. The Punjab Committee have not brought out that aspect of the question. In regard to the indigenous banker, according to their findings, the factors which have operated for the collapse of what they call the

house of the indigenous banker are other factors; they do not mention anything about the increase in capital and the reduction of demand for loans?—I had a discussion with Mr. Darling some time ago on this very question and I had discussion with him about the economic situation in the Punjab. I was told that there was a strong middle class in the Province and that there were neither people who could be regarded as millionaires nor people who were paupers. I personally think that lending business as such must have shown considerable shrinkage owing to this last factor.

8807. There are two aspects of the question. There should be development of joint stock banks, branch banks and other co-operative banks, the indigenous banker being integrated into the whole system. If the indigenous banker forms himself into a joint stock bank, it is not necessary to consider that aspect of the question. That is one alternative. The other alternative is to take special steps to revive the indigenous banker and to free him from the competition of the Indian joint stock banks, branch banks and co-operative banks. That is, in one case preference would be for the joint stock banks, branch banks and the co-operative banks, the indigenous banker being given such concessions as will enable him to live and form part of the whole banking organisation. The second system is this: the indigenous banker is definitely given concessions so that he may find a place in the banking organisation in competition against the joint stock banks, branch banks or other co-operative banks. He may thereby retard the growth of the latter institutions. What would you prefer?—The first alternative.

8808. *Sir Purshotamdas Thakurdas*: Your main anxiety is that there should be no delay in the re-organisation of the banking system owing to any experiment being tried regarding the indigenous banker and his correct place being retained for him. Your anxiety is that nothing should be held up to let this class have a chance?—Certainly I want every encouragement to be given to him; but I do not want that a solution of the problems connected with his position should delay progress.

8809. Is not the indigenous banker or the village money-lender the financier of the masses of people?—Certainly.

8810. Does he not finance the internal trade and requirements of the masses more than all other banks?—I agree.

8811. Is it easy to replace him? Would he not continue to be a great necessity for the masses of the people if his methods of work were purified and he was asked to conform to certain rules regarding audit, etc.? My belief is that with his position strengthened, he can do his work with greater precision?—I find considerable difficulty in seeing what exactly would be the practical proposition to ensure that his contribution to the economic life of India is as pure and honest and scientific as that of the joint stock banks.

8812. If he could be compelled to keep regular accounts which will be audited by reasonable auditors, that objection could be met?—Certainly.

8813. What objection could there be to give this class an encouragement which will make them more useful members of the banking organisation?—Even apart from other questions, with the situation as it is, the indigenous banker deserves to be encouraged in the sense that his

transactions should be purified and his place in the economic system clarified.

8814. *Chairman*: Then, it is not a question of merely allowing him to live; it is a question of giving him such encouragement as will enable him to retain the position he holds?—Yes. If I may summarise our views, we believe that the indigenous banker, being native to the soil and having spread his activities throughout the country and having conducted business on an economic scale, if he could be integrated in the banking system of the country, nothing would be better and we also believe that every effort should be made to integrate him. But looking at the problem, we are up against practical difficulties, the solution of which, we are afraid, might retard the real reconstruction of the organisation.

8815. *Mr. Devadhar*: With regard to your opinion about the position of the indigenous banker you have expressed certain views in the last two paragraphs of your memorandum. If the problem is to assign to the indigenous banker a definite place in the whole scheme of banking reorganisation, you necessarily think that he must so change his practice and his methods should be so modified that he can fit into the whole scheme?—Quite right.

8816. Our object in discussing problems with regard to banks is to try and bring as much relief as possible to the poor agriculturists who form a great majority of the people who need finance to-day. In the latter portion of your penultimate paragraph you say, "The least that democracy, where it is not socialistic, can do, is to treat co-operation as its pet"?—That is our opinion.

8817. Are you referring here to modern developments?—It is not a question of modern developments.

8818. In reply to Sir Purshotamdas Thakurdas you said that his method would be cheaper but my experience of the small unit of co-operative machinery in the village shows that it has enabled the farmer to get money at 50 per cent. less than the rate at which the money lender gives him money?—When I said 'economical' it did not refer to the rates of interest but to the cost involved for his conducting the business.

8819. But if the result in the sense of reduction of the cost of management to the money-lenders' business does not show a proportionate reduction in the cost at which he lends money, where is the economy in management? Am I to understand that whichever system of agricultural finance we advocate, either through the indigenous banker or an indigenous banking institution or the modern co-operative institution, we should aim at advocating that which enables the poor agriculturist to get money cheaper?—I may go further and say, that even with the continuance of the indigenous banker, the necessity for the provision of the fullest and freest facility for agriculturists, through a properly co-ordinated agricultural banking system is very urgent and very imperative.

8820. As you have gone through many of the Provincial Committee's reports it would not take you time to discover that the rates at which money is available in the market to-day for the agriculturists are very much brought down by co-operative institution?—Yes, but it has not touched the whole field.

8821. In a province like the Punjab it has been done to the extent of 1/10th; in some other province to the extent of 1/8th. It is a matter of time. Granting that such kind of assistance is given by the co-operative institutions more or less gradually in the direction of bringing down the rate directly by compelling the indigenous banker to reduce the rate of interest, then the choice will lie between the co-operative institution and the indigenous banker so far as his methods of work continue on the present lines. If he would change his methods and meet the requirements of the situation, I would be as much his friend as you are?—I would even then wish the co-operative movement to go ahead full-steam. I do not consider that there is any antithesis between the indigenous *shroff* and the co-operative movement. The co-operative movement caters to a class and in a manner and under conditions of social uplift and things like that which are so peculiar and so important that I wish the movement to go ahead full-steam; let us do whatever we can to the indigenous *shroff*, but let us not neglect how much we owe to the poor agriculturist to go ahead with the co-operative movement.

8822. *Chairman*: Mr. Devadhar's point seems to be practically the one on which I was asking you question; that is, if in the process of giving concessions to the indigenous banker we find that we are putting him in such a position where he will be able to compete successfully against the co-operative movement or other institutions to which I refer, in your opinion would it be desirable or prudent to do so?—I said if the antithesis is to be in the way in which you put it, I vote for the alternative one.

8823. *Mr. Manu Subedar*: You are aware there are 700,000 villages in India and there are only much less than 700 branches of joint stock banks and the aspect which is to be considered by some of us is the question of cost. Banks on western lines, assuming that they are more desirable because of the regular system of account, audit and so on, are costly. I have ascertained that the branch of a joint stock bank costs from about Rs. 3,000 a month to Rs. 4,000 a month. Have you given some attention to this aspect of it?—When you refer to 700 branches you mean only Indian joint stock banks and not co-operative banks? In a discussion of this kind when you talk of villages and towns, I think it is only proper we should include co-operative banks.

8824. Even if you include the co-operative banks there is a great gap to be filled up compared with the population and requirements?—That is a statement we had to modify in the light of the existence of indigenous *shroffs*.

8825. I put it to you whether the limitation in the expansion of banking on western lines is not a definite limitation put by the cost of running a branch?

Chairman: We do not yet know how far it will increase the cost of the staff?—And therefore the cost of the service.

8826. *Mr. Manu Subedar*: At the present moment the two things are incomparable because the indigenous banker does business with a small staff and his methods are quite different; but even with the lower cost of his staff what Mr. Devadhar brought out was that the service he does to the 300 millions of the people is very costly and therefore this Committee will have to consider the two aspects—firstly in this attempt to purge the indigenous system of the difficulties which now exist, the cost

of his staff will have to be increased, if he has got to prepare proper accounts and submit them for audit; but the second and the more important aspect is whether it will have the effect of reducing the charge which he makes to the agriculturist of the present day. Therefore the two things as they stand at the present moment are not susceptible of comparison. The point therefore on which I would like to have your views is whether there is any definite limitation put by cost; at least the cost question would have to be considered?—By the need of trained staff. There are limitations of that kind.

8827. Other people in their evidence before us have said that it is not possible to expand banking in a manner which would merely supplant one form of banking by another instead of really adding to the volume of credit requirements in this country. Would you say that the central problem was to bring down the rate of interest prevalent in the districts so that the greatest benefit which a borrower can derive is not the method and manner but the charge?—The charge and also the method and manner.

8828. These men have to pay 20 and 24 per cent. and something should be done by which they would have to pay only 9 or 12 per cent?—Do you not think it would be better in discussing this, if we divided the needs of the agriculturists into two classes, the long-term and the short-term requirements.

8829. If you admit that the central problem is the reduction of the rate of interest, the question is how to bring this about?—The central problem is firstly to remove the ever-recurring and ever-deepening indebtedness of the agriculturists. The existing circumstances are such that where he gets into debt he is ever in debt. The central problem is how to remove it. Now, owing to the manner and method and rate of interest, conditions of repayment and kind of security in respect of loans, all these factors combined, the *ryot* is getting only deeper and deeper into debt and his breaking point is almost reached.

8830. *Dr. Hyder*: With whom is he getting into debt?—Wherever he can get money he takes it. The conditions of these loans are such that he could never repay. He has even found it difficult to pay the interest and is getting deeper and deeper into the mire.

8831. *Mr. Manu Subedar*: The conditions of repayment would be better if the rates at which he borrowed were replaced by a cheaper rate?—Yes.

8832. If therefore the rate of interest were brought down all-round in the country, that would be *prima facie* a great boon?—Quite.

8833. The difficulty we are told with regard to the ordinary joint stock bank is that when a branch is put in a small centre, the type of man that we put at the top gets Rs. 150 salary and he is perhaps imported from the town. He is not the man of the locality. He is not the type that can be brought to assess the credit of the local people properly. He would be undoubtedly conservative. He would perhaps be stand-offish. He thinks himself superior to the local people. These are some of the difficulties with regard to the co-operative bank; since you include that, the difficulty is that it is not wise to allow men in charge of co-operative banks to deal in ordinary banking process as they are not fit for it. This was the opinion of the Managing Governor of the Imperial Bank. Now I put it to you whether the indigenous banker or money-lender does not

from this point of view assess the credit of the man properly, give him the maximum amount that is capable of being given on such security as he has got—and the securities are all very flimsy. The ordinary banks are either precluded by their rules or by their processes from accepting them and in the remote centres an extension must mean that he must go down from the centre of the population. The moment you established there a little branch, the little manager cannot adequately replace the local man. That is a suggestion made to us. If, therefore, it is possible to bring down the rate of interest prevalent in the locality so that the local man cannot charge more by competition, then he would be conferring a great boon and this could be done by utilising the services of the existing man who is a tried and old banker, who knows the locality, who understands the people thoroughly, he can take advantage of that and he will charge a more reasonable rate. Then would you say that the extension of western type of banking may not be the principal solution of the difficulty?—As I said, I divide the needs of the agriculturist into two kinds, the long-term and the short-term. Your indigenous banker can never satisfy the long-term requirements of the agriculturist and looking into the question in broad terms, I would say that a land mortgage bank furnishing long-term loans to such agriculturists as have, so to say, tangible security, is the first essential for the agriculturist. Secondly, a kind of central agricultural bank strengthening the co-operative bank down to the bottom and giving facilities in regard to the seasonal requirements and thirdly the indigenous *shroff* who can lend money to those persons whom these two institutions cannot help. That is, roughly in my mind what would be the ultimate requirements of the masses of the people.

8834. From the statement of indebtedness in various provinces which we have received it would appear that over one thousand crores is the debt, largely long-term debt. As against these the co-operative societies' total funds are 60 crores. Therefore when you said that the indigenous banker cannot deal with the long-term loans, I put it to you that he has already found the bulk of this one thousand crores?—How much of it is principal and how much interest.

8835. He has found some substantial means?—Will he realise thot money?

8836. I fully realise the difficulties of the problem but before you can have a banking organisation either on western lines or co-operative lines, which would put forward a thousand crores, we shall have a very long distance to go?—What would be the difficulty of creating money? When you come to think of it, if there is a land mortgage bank which issues debentures against mortgages accepted by the various branches and if there are suitable provisions that could be included in the law relating to our currency reserves, the needed money could be found, there would be no difficulty.

Mr. Khaitan: Where is the money to come from?

8837. *Mr. Manu Subedar*: I admit that it is possible perhaps from certain sources to raise money which you mention and I might mention to you that many difficulties have been shown to us. It would be possible perhaps to devise methods for it but the replacement of existing debts to the extent of 1,000 crores and the transfer of these debts to institutions on western lines would be a very long process?—Yes. It will be a gradual process.

8838. It would be a prolonged process. Supposing a man borrows from an indigenous banker who charges him 26 per cent. If it was possible to persuade him to charge 10 per cent., it would be a much quicker process. The indigenous banker would want some *quid pro quo* before he would consider this; but if such *quid pro quo* could be found and he would be willing to accept it even if the rate of interest was brought down, it would be better to keep the same borrowers and the same lenders subject to certain mutual arrangements on both sides, than to replace them with banks on western lines?—It would seem to be a shorter cut.

8839. *Mr. Devadhar*: Would I be correct in saying that that colossal amount of indebtedness as represented by these figures is more or less the result of the methods of the indigenous banker to which the farmer has been subject in the past?—I should find it very difficult to answer this question because I am not acquainted with village conditions in that sense.

8840. These debts go on mounting up; very probably the principal is not paid and interest is added and compound interest. You know the current rates of money-lenders range in certain provinces between 18 per cent. to 24 per cent. If we take the figures of Bihar and Orissa we find that by co-operative principle by bringing down the rate by 50 per cent., there is something like a saving of 13 crores. Supposing that calculation is correct, would it not be possible even by this method of financing the poor agriculturist to wipe out this indebtedness in the course of the next few years? That would certainly be one of the best means of bringing down the indebtedness of the agriculturist. If we only teach him the lesson of thrift and provide the necessary machinery which would be popular to him, he would invest all the money which he saves in this co-operative method of dealing and reduce the old indebtedness to the old sowcar? I said this transfer of indebtedness from the short-term creditor to the land mortgage creditor will be a process of time.

8841. Will the funds be obtained in the shape of shares?—The sale of shares and debentures could not be done in a day. It will take 10, 15 or 20 years but I do expect that in the course of some years with an efficient banking system and that system working sympathetically, it should be possible to remove this dead weight.

8842. I think you will easily recognise that during the last 20 years of co-operative service, the co-operative movement has brought within its field something like 60 crores of rupees from the position of a single *rupee* from the bank to its credit. It has been able to do that during 20 years. Do you not expect that in the course of 20 years the movement itself will be popular and its claims now being recognised, people will derive far greater benefit than bankers in the country or other people who have money to invest and therefore the length of the period need not stand in the way of the development of the system?—Quite so.

8843. We hope that probably in the course of the next 20 years, the amount may run up to 600 crores. We would not be wrong if we were to ask you that the movement should be given such encouragement as is necessary under the circumstances. Is there any data for you to suppose that the co-operative banks have really brought down the amount of indebtedness to the agriculturist?—I am not competent to answer the question.

8844. *Sir Hugh Cocke*: Arising out of the line of argument of Mr. Manu Subedar, you said that it might be possible in the course of time for the 1,000 crores of indebtedness to be taken over from indigenous money-lenders by land mortgage banks. Mr. Manu Subedar also suggested that it might be possible suddenly to tell the indigenous money-lender that his rate which up to that time was 25 per cent. should be reduced to 10 per cent. I suppose it will be quite normal for an original loan of Rs. 100 to become Rs. 200 or Rs. 300 in course of years by interest accumulating at 25 per cent. and the borrower only perhaps being able to pay 10 per cent., do you think it would be possible for this Committee to make any recommendation which would have the effect of compelling money-lenders suddenly to reduce their interest to a certain figure in view of the fact that he has given his original loan under certain conditions of flimsy security or no security at all?—Mr. Manu Subedar wanted me to assume that it could be done. I do not suggest that it could be done. I doubt if it could be done.

8845. I put it to you that it would be impossible to do it?—I should think so myself.

8846. *Mr. Devadhar*: In your opinion have not the co-operative institutions helping the agriculturists reduced their indebtedness with the growth of the co-operative movement. I find that you have divided the loans into two parts—short term and long term, meaning by the former loans lent for meeting current needs and the latter for the liquidation of old debts. That being the case, do you not think that the co-operative institutions have as a matter of fact, reduced the rural indebtedness of these agriculturists?—I have no statistics before me on that matter, and therefore I can only speak from my impression. I should think that these co-operative societies must have brought a corresponding reduction in the indebtedness of these agriculturists.

8847. Do you not think that the co-operative movement is helping the agriculturists in two ways, (1) by not asking the agriculturists to go to the indigenous banker and borrow at considerably higher rates of interest, and (2) the money thus saved is money got?—I agree.

8848. *Chairman*: You have referred to the pursuits of its branch banking activity with vigour by the Imperial Bank of India and some of the advantages derived from this activity. May I take it therefore that you look with approval on the continuance of this activity on the part of the Imperial Bank, if with the creation of a Reserve Bank the Imperial Bank is allowed to carry on its functions as a commercial bank?—I will say I can give only my modified consent to this. There have certainly been complaints with regard to this and from my knowledge of those complaints I believe them to be justified and believe that the Imperial Bank has gone into a field where branch banking has already been developed by some other bank. In other words, I want some legislation as it exists in Japan where if there is a bank already in existence at a certain place, the permission of the Banking Board should be obtained to open a new branch of another bank there. They grant or reject the application after looking into the population of the place, the amount of business that could be transacted there and other things. I think that the deliberations of this Committee would lead to the formation of some kind of Government body which would do the same sort of business as is done in Japan at present.

8849. Do you think that this work can be transferred to the Reserve Bank when it comes into existence?—That is an idea which I myself wanted to put forward.

8850. *Mr. Shanmukham Chetty*: Do you agree that from the point of view of the borrowing public the branch activity of the Imperial Bank has been productive of bringing down rates of interest?—If you lent me Rs. 5 lakhs free and I lent out of it Rs. 1 lakh to my friend at 1 per cent. interest, it is not a matter for gratitude. The Imperial Bank has got a large amount of interest-free balances from Government and naturally they will be able to bring down the interest rate which other joint stock banks are unable to do, because the latter have to raise their deposits paying higher rates of interest than the Imperial is able to attract.

8851. You said that there should be some sort of Government body which would control the opening of new branches of banks at centres where there are already branches of another bank or banks. Supposing in a particular locality the Board decided not to have any more branch of a bank, then would you provide to ensure that the existing bank did not charge monopolistic rates of interest?—There should be a restriction placed on the maximum rates that banks should charge.

8852. If there is to be a control on the opening of new branches at centres where there are already branches of other banks, you will also restrict the rates at which banks should advance money?—With regard to the rates charged by banks on advances, there has not been much room for complaint. If the Imperial Bank reduced the rate of interest at one centre, the question arises whether they have reduced the rate to an economic rate?—I welcome the opening up of new branches by banks including the Imperial Bank but I should think that it should be undertaken with care.

8853. You are contemplating of a locality where there is scope only for one bank. In that case would you empower the Board, that you are thinking of, to prohibit any other joint stock bank from opening a branch there. In such cases what control would you exercise over the existing bank?—When the Reserve Bank is established, it will have proper control over these banks and if they find that the rate charged by one particular bank is unduly high, then it will see that the local bank changes its methods. This should be done rather by convention and tradition than by law.

8854. So your point is that the Reserve Bank or the Board that you have in mind would keep the interest rates steady?—Yes.

8855. *Chairman*: You seem to have been unnecessarily worried over the prospect of the Imperial Bank continuing to hold Government balances, which according to you might be an unfair advantage to the latter as against the other joint stock banks. Do you not think that if a Reserve Bank is created, the bulk of Government balances would go to the Reserve Bank?—I do not know what the proposals in the new Reserve Bank Bill will be, but I know that when the last Reserve Bank Bill was introduced, there was a provision in the same which provided that the Imperial Bank was to be the sole agent of the Government of India at those centres where the Reserve Bank had no branches and the Imperial Bank was to be given interest-free balances and also Rs. 3 lakhs per branch free of interest. In the Joint Committee the last clause was removed, but still they were to continue certain facilities even after the formation of the Reserve Bank.

8856. The value of the advantages would be relatively small that they would not operate to the same extent as envisaged by you?—They will still continue to hold relatively important advantages compared with other joint stock banks.

8857. *Dr. Hyder*: Would it not be better not to fix the maximum rate of interest that could be charged in any particular locality and then leave the field absolutely open for other banks to compete; would it not be better to have no control over branch banking activities and thus give the freest possible freedom to banks to establish themselves anywhere they liked; thus allowing the rates of interest to keep to their absolute minimum as a result of active and deadly competition?—This conception of free trade in that large sense is a very great conception, but in practical working some such restriction in regard to the number of branches to be opened seems to be necessary.

8858. *Sir Hugh Cocke*: Do you think that any restriction with regard to branch banking is at all necessary because we have been told by several witnesses that there should be more and more healthy competition between banks?—But there should not be unequal competition.

8859. Would you not be in favour of unlimited banking competition?—We would prefer progress to be more regulated and not free trade in regard to this.

8860. *Chairman*: A concrete case was brought to our notice in which we were told that it was not the joint stock bank which was working at a centre that had to close its doors owing to competition by the Imperial Bank, but the latter itself had to close its doors owing to the competition of the former. In this particular case the Imperial Bank brought down the rates of interest at that centre, but no sooner had it closed its branch at that particular centre, the other existing bank reverted to its original higher rates.

Mr. Lamond: And the people of the locality are now clamouring for the branch of the Imperial Bank to be reopened again.

8861. *Mr. Manu Subedar*: From your memorandum I find that you lay great emphasis on the need for organising banking on a scientific basis so that you would not allow the frittering away of national resources?—Yes.

8862. I put it to you, is it not in your mind that an ordinary joint stock bank has first to attract its deposits after paying fairly good rate of interest, which funds it has to utilise in advancing loans to its customers, whereas the Imperial Bank is able to cut under its feet by its being able to command greater resources like interest-free balances of Government, as also due to the fact that it is able to command public deposits at cheaper rates owing to the confidence it enjoys with the public because of its connection with Government?—That is so. Our idea is that the Imperial Bank should be made an industrial bank.

8863. That is of course another proposition, though a novel but ideal one. Therefore your view is that in order to enable the Indian joint stock banks to thrive by their being able to raise their deposits and also make advances relatively cheaply, you would impose this regulation on banking on the joint stock banks including the Imperial Bank?—Yes.

8864. Therefore is it not your idea to restrict the activities especially of foreign banks in opening branches at interior centres?—My view is that no new bank should be started at a centre where there is already a bank doing business, without the permission of the Board.

8865. *Chairman*: The point of Mr. Manu Subedar seems to be this. When there are two joint stock banks or more operating at one centre, would you impose on your banking board or the Reserve Bank the function of regulating the rate of interest on advances?—If there is to be regulation in the rate of interest, it should be equally so in the case of all banks including foreign banks.

8866. *Mr. Manu Subedar*: You admitted one of the impediments in the way of the growth of Indian joint stock banks is the Imperial Bank which has control over the interest-free balances of Government. I put it to you, the other impediment is the foreign banks who are able to attract deposits at lower rates of interest. Would you do something in their case to restrict their business?—I think Indian banks should be allowed to grow under healthy conditions.

8867. *Chairman*: You say that the Imperial Bank has come in for the largest amount of public criticism from every bank, indigenous or foreign. Could you kindly tell the Committee some of the points of criticism levelled by the exchange banks?—I have certainly heard it said about exchange banks that once the Reserve Bank was to be brought into existence and it was proposed that the Imperial Bank should get a right to do exchange business, there was a general complaint that the Imperial Bank with its special advantages should be offering unfair competition to the exchange banks. That was the kind of complaint made. I do not agree with it. When I said that the Imperial Bank had come in for large amount of criticism from every bank indigenous or foreign, what I meant was every shade of opinion had some sort of grievance against the Imperial Bank.

8868. You do not subscribe to these opinions or criticisms?—No; I do not.

8869. And therefore those criticisms are criticisms which you have only heard?—Yes.

8870. You say that the Imperial Bank of India has not rendered any material assistance to the Indian joint stock banks beyond making accommodation on Government securities at slightly more favourable rates of interest and making available a few other facilities regarding cash credit arrangements at selected centres. Would you kindly tell the Committee what other kinds of assistance you have in view?—As I was mentioning some time ago, the Imperial Bank has in some sense told the Indian joint stock banks that they can have a loan against the Government securities but not a cash credit arrangement. This was the situation about 2 years ago. I took up the matter in my columns and the facilities that are described are exactly the facilities which I indicated should be accorded to the Indian joint stock banks. I suggested that after all Government securities were the best securities. If that is so and if the Imperial Bank is the Government's bank, they should certainly give advances against Government securities especially when the Indian joint stock banks have suffered so much. I appealed to the Imperial to give considerable facilities to the Indian joint stock banks. In other words I wanted a cash credit system with a few restrictions. Supposing a bank has 30 centres, in the old days it used to keep 2 lakhs in one centre and 2 lakhs in another; if they required money they used to give to the local branch of the Imperial Bank and raise the money; supposing they had to sell the security, it had to distribute the security among so many branches. What I suggested was that securities should be kept in centres like Calcutta and Bombay and

credit should be available for stated amounts in certain branches and that interest should be lower. I am glad to say that the proposal was given a sympathetic consideration by Sir Osborne Smith and in the case of a certain bank I know very well that credit was given to the extent of one crore. It was of considerable assistance to that bank though the rate of interest charged could have been lower. So I say facilities given against Government securities without any kind of restriction would be the best kind of help which the Imperial Bank can give to the Indian joint stock banks.

8871. *Mr. Devadhar*: Would you be in favour of the Imperial Bank advancing money to the co-operative bank on agricultural paper?—This question was brought to my notice by Mr. Ramdas Pantulu in connection with the Madras Co-operative Societies. In fact I approached the Imperial Bank authorities for a credit of 60 lakhs for the Madras Bank. Each branch of the co-operative bank was given a cash credit against agricultural paper. The central banks never utilised the margin at all. They treated it as practically the cash in their till. This went on for a number of years with the result that while the Imperial Bank has been giving this facility, no advantage has been taken of it. On the other hand the liquidity of the banks concerned has been reduced because this was the only liquid resource they maintained.

8872. At present the Imperial Bank cannot advance money for a period of more than 6 months for reasons of their own. Supposing the Imperial Bank recognises the paper, would it not be necessary or would it not be advantageous to have longer credits from them?—In practice it has been longer credits; in theory they say it is for 6 months; but in actual practice automatically they have been renewed after 6 months.

8873. But would you not agree to long credits being granted by the Imperial Bank?—It all depends on what the Imperial Bank is going to be. If it is going to be a commercial bank, it would do well to confine itself to a period of 6 months or one year.

Mr. Lamond: The interest arrangement would be for one year and the loan is not one year.

8874. *Sir Purshotamdas Thakurdas*: Not all the loans are subject to renewal?—In theory it is a short loan but when the account is regular, it is automatically kept up.

8875. *Chairman*: Because at the end of 6 months the Imperial Bank is given an opportunity to assess the financial position of its borrower?—On the whole it never commits itself to the number of months, because it becomes liable to stamp duty.

8876. You suggest that the Government and this Committee should give their first and foremost attention to the revival of activity and hope, and to the enlargement of the scope and profits, of such of the Indian joint stock banks as have come to stand out as examples of the capacity and skill of Indians to start and run indigenous institutions on lines of modern banking. Could you kindly summarise for this Committee in broad and general terms the directions in which action should be taken to carry out your suggestion?—First of all any one who has been carefully studying the attitude of Government towards banks in this country can come only to one conclusion, namley, that the Government have been most criminally callous of their duties in regard to banks. I am using very strong words

about their duties towards banks. It was Sir Basil Blackett who for the first time spoke at all about banks; since then the Reserve Bank controversy and this Committee have kept the Finance Member in touch with the banking conditions and it is yet a problem how far they are going to translate these into concrete proposals. It is this initiative in their attitude which is the most essential thing. Their own financial problems, or their own currency policy cannot remain sound unless the banking system of the country is sound. The link between the banking system and the Government finance is the most important thing in my opinion. Secondly, it is essential that such recommendations as this Committee would be making—which I am sure would be not merely the creation of more banks but the creation of a system which is an integrated whole—are not shelved by the Government, as is usually the case, and that they do take immediate action. Thirdly, I would emphasise the creation of the Reserve Bank, though perhaps it is beyond the terms of reference to this Committee.

8877. *Mr. Shanmukham Chetty*: Not at all—I am glad to learn that. I would like the Government to make a condition in the Reserve Bank Bill that the Reserve Bank should keep what I may call an approved list of banks and any bank on the approved list including the Imperial Bank opening a new branch, after the Reserve Bank Act comes into force, should be given either a kind of interest-free balance or of half the cost involved in the management of that branch, say, for 3 or 5 years. I want some token on the part of Government which will enable the Indian banks to claim that they have the confidence and the association of Government. I would also suggest that the Government of India should, in those places where any of the approved banks has got a branch, offer the treasury work to be done by that bank. The Imperial Bank should normally be the agents of the Government of India but not the sole agents. This undertaking of the treasury work would not be a profit to the bank but is calculated to give them an added political prestige in the eyes of the public. These are my suggestions under this heading.

8878. *Chairman*: You refer to the great and unique opportunity and the heavy responsibility of the Imperial Bank of India which should deem it both a duty and privilege to be able to produce the men who could play no mean part in the creation and growth of Indian Banking Autonomy. As you are aware the Imperial Bank has at present a scheme for the training of Indian assistants. These assistants are, however, trained for employment in the Imperial Bank and to an increasing extent assistants trained in the Bank under this scheme are promoted to the rank of staff officers. The scheme is thus restricted to providing the Imperial Bank with adequate and trained personnel. Is it your intention that in addition to making provision for its own requirements, the Imperial Bank should also train men for satisfying the growing needs of other banks in the country?—Certainly the Imperial Bank cannot be expected to do that work for other banks; I never suggested anything of that kind. If they have a good number of trained men, with the quick development of banking, these assistants who have been trained in the bank would be commanding a good premium from banks in search of capable assistants and if these assistants could be offered better prospects by one of the new banks that are to be started, they should be free to leave the Imperial Bank to join those institutions. Nothing should prevent them from doing it. There is nothing wrong in it.

8879. You refer to the large resources and the ample facilities enjoyed by the exchange banks and the liberal credit facilities which they extend.

Could you kindly tell the Committee whether you are satisfied with the facilities now provided by the exchange banks?—I think so far as the financing of the foreign trade is concerned, the facilities that are made available by exchange banks are quite adequate and satisfactory.

8880. Have you heard of any complaints of racial discrimination on the part of the exchange banks in the matter of granting facilities to people engaged in the foreign trade of India?—I have heard such complaints, but I know of many instances in which Indian firms have received very liberal treatment from exchange banks and I would not associate myself with those complaints.

8881. You feel that those complaints are not justified?—Yes.

8882. In connection with the position of the exchange banks in India you refer to the growing feeling in the country that Indian institutions should be able to take their proper place in this field of banking and that it is the duty of the Government to create conditions which would facilitate such a desirable change. Could you kindly indicate to the Committee what practical steps you would advise Government to take with this end in view? In solving the problem of exchange banks *versus* Indian banks, you suggest that the example of other countries should be taken as a guide and that, in addition, in the case of India, the history of the past should also receive due weight. Would you kindly explain what points in this history you are specially referring to?—If I may do so I want to read this passage which appears in my Banking Enquiry Number. "Quite apart from questions of discrimination in finance, the exchange banks will have to be judged by their contribution to the growth of banking in India and their attitude to the broader questions of the currency and exchange policy of the Government. The exchange banks entered the field of banking in India long before indigenous joint-stock banks were thought of; and they have throughout sought to maintain the foreign character of their organisation and management. One of the exchange banks was originally started in India as a rupee concern; but, later, in its career, it has got itself registered in London and discarded its Indian incorporation. For a long period of years, exchange banks have had a practical monopoly of deposit banking in India; and aided by the cheap money they could command in England, they were able to make large profits and build up the large reserves that have given them their present impregnable position. At present, they have a practical monopoly of foreign exchange business. They opposed the proposal for amendment of the Imperial Bank of India Act so as to permit the Imperial to participate in this branch of banking activity, as they felt that in its privileged position, it will have an undue and unfair advantage. They have not been, on the whole, particularly friendly to Indian joint-stock banks. The *personnel* of their management is foreign; and no Indian is ever given a chance of joining their superior staff to learn foreign exchange banking. Looked at from this point of view, exchange banks, while they have played all along an important and useful part in the provision of banking amenities, have contributed little or nothing to the growth of banking in India." That expresses our complete opinion in regard to what the exchange banks have done so far and what they have failed to do. That they have provided banking amenities and amenities on a fairly adequate scale for foreign trade, there can be no doubt. But they have so far not taken one single Indian and initiated him into the mysteries of higher banking so that if Indians to-day want to start exchange banks, they will not be successful because there is no trained man for this

kind of business. I complained against the manner in which they have shut out Indians from appointment to the higher staffs. When I said that "the example of other countries should be taken as a guide and that, in addition, in the case of India, the history of the past should also receive due weight" I meant that they have been there so many years, they have provided banking amenities, they have contributed a certain amount of good to the economic growth of this country and we should recognise that fact when we think of the future position of exchange banks in India; but at the same time we find that they have not done much to help Indians to get the capacity for starting exchange banks of their own and that they have preserved the foreign exchange business entirely for themselves. As to how exactly the non-national bank of such a kind should be allowed to continue business in India is to be judged by the practice prevailing in other countries. There, when we study the banking law we find that there is nothing like uniform practice; certain countries have got restrictions while others have none. What are the facilities that Indian banks should have as against non-national banks in the light of the experience of other countries?—It is a question which will have to be carefully gone into. I am of the view that the banking board which I have suggested should have the power to issue licenses to all banks doing business in India. No bank should be able to do business without the license. There are two or three considerations which should be taken into consideration. One is what treatment an Indian bank would receive from the country of origin of the foreign banks; reciprocal treatment should be provided for in the conditions of license. Secondly, just as the British Board of Trade has provided that a minimum number of appointments should be given to Britishers, so should exchange banks be pledged to employ so much percentage of Indians in their higher staff. It is no use having merely *baboos* or clerks. It is necessary we should create a personnel among the higher staff. Thirdly, there should be some restrictions on the kind of business they do, they do now deposit and foreign exchange business; they have also begun to do a little bit of local business or internal trade. They should certainly confine themselves only to foreign business and whether this should be carried out by investment through their branches at ports or whether they should be permitted to have branches in the up-country centres, is a matter which has to be gone into carefully. It should certainly be necessary to make them confine their activities to transactions arising from foreign trade.

8883. *Sir Purshotamdas Thakurdas*: Which means that by the terms of the license you would prevent them from doing internal trade business?—Yes.

8884. *Chairman*: I should like to know whether these are the steps which you had in view when you stated in your memorandum that it was the duty of the Government to create conditions which would facilitate a desirable change. Are these the only steps you had in view?—This is a question which has troubled me a lot. I have not been able to arrive at definite or categorical conclusions on this question. I could not say that these conclusions were in my mind at the time I wrote this passage. What I have mentioned to-day is simply something which I consider to be worthy of consideration by this Committee, but I do suggest that some action on these lines is essential.

8885. You refer to a long tale of woe which the Indian joint stock banks have to narrate of their present plight and you refer briefly to the extreme depression in Indian trade, commerce and industry during the last four

years and the devastating depreciation in properties, etc. Would you kindly tell the Committee how far each of these evils is remediable and what in your opinion is the proper remedy for it?—I could divide the depreciation that has taken place in the properties under the following heads:—

Depreciation in regard to stocks and shares.

Depreciation in regard to commodities.

Depreciation in regard to house and other landed property, and

Depreciation in regard to Government securities.

I think these would cover the securities which will be accepted by a bank. As regards stocks and shares, I think nothing could be done by the Government or by any other authority. As regards depreciation of commodities on the whole the advances against commodities in general are seasonal and they do not affect the intrinsic position of banks. In regard to depreciation of properties on the whole most of the soundly-managed concerns have always put a strict limit on the sums advanced against properties; although the security has gone down in value, there is nothing that could be done at the moment. Great anxiety is, however, caused with regard to Government securities. For instance, in the latest balance-sheet of the Imperial Bank, they had to write-off nearly 10 lakhs on account of Government securities.

8886. What was the total value of the holdings?—32 crores at the balance sheet time, of which 12 crores might be in treasury bills.

8887. Taking the Government security on the whole it is 10 lakhs out of 32 crores?—Yes. Other banks should have lost even more, since they are not so well posted in advance of what is going to happen. The Imperial Bank may know Government's intentions regarding new loans and other activities of Government. About this depreciation in Government securities I want to make a suggestion. After all, so far as the Indian banks are concerned, they hold these securities as a liquid investment. They do not hold them for the purpose of jobbing with those securities. They keep those securities with them and if they need money, they take them to the Imperial Bank and borrow money. The point I wish to make is that securities are held purely for investment purposes as a liquid reserve. If it is so, I should like to know why the banks should be obliged to provide full depreciation in regard to securities which they are likely to hold till the date of redemption. Recently a heavy land slide has occurred in Goverment securities. I wish to suggest that provision should be made that in regard to the gilt-edged investments of Indian joint stock banks, instead of providing all the depreciation that has occurred, a round figure of 1½ per cent. on the total gross value of the security must be provided. This is the scheme which, I may mention, I discussed with the Finance Member and he suggested that instead of its being 1½ per cent., it would be a certain percentage according to the number of years or according to the maturity of the loans. If it matures in 10 years, it may be one per cent. If it matures in 10 to 20 years, 1½ per cent.; between 20 to 30 years, 2 per cent. In regard to Government securities unless a thing like this is done, it is found that the profits of the banks are small and that they are not able to declare the same old dividend and as a consequence there is suspicion in the minds of the depositors.

8888. *Sir Hugh Cocke*: May I ask whether the rate you have suggested is the rate per annum?—No, they are in lump.

8889. *Mr. Shanmukham Chetty*: That 1½ or 2 per cent. may be spread over the remaining period of maturity.—No, straight off let it be provided in the next year's balance sheet.

8890. And afterwards you need not provide on Government securities at all?—No.

8891. Do you not think it would take away a big lump from the profits?—What they are now providing is very much more in each half-yearly balance sheet. 3½ per cent. has come down from Rs. 79 to 64, *i.e.*, 15 per cent. in 4 years, that means 4 per cent. for a year and 2 per cent. for a half-year. 1944-55 has come to Rs. 100.

8892. *Sir Purshotamdas Thakurdas*: If I suggested one further point, it might help to clear up the matter. You cannot appreciate securities even though you may have 10 per cent. appreciation?—Absolutely.

8893. Therefore if there is an appreciation of any kind, you cannot utilise it. *Per contra*, if there is a depreciation you need not provide more than 1½ per cent. in a year?—Not in a year.

8894. Suppose a bank holds 1944-55 paper and bought it at 105, which is the prevailing rate. The security to-day stands at 99. In 1945-55 it will be repaid at par. How is the bank to write-off the 5 per cent. except by providing for 1½ per cent. before 1945-55 for three years? Or, would you like the deficit to be written-off in the last year of repayment?—Straight off as soon as the law comes into force, provision on these lines will start.

8895. 1½ per cent. for only one year would show a deficit at the time of maturity?—Once for all create a reserve of that kind and allocate no more for depreciation.

8896. Supposing a bank holds one crore of 1945-55 paper which they bought at 105, the market rate of which is 99, there is a deficit of 6 lakhs. In any case on the day of payment there will be a deficit of 5 lakhs. According to your scheme they need only write-off 1½ lakhs once between now and 1945?—You have chosen a scrip that was at a premium.

8897. A scrip like that also has to be dealt with?—An exception will have to be made in the case of scrips that stand at a figure higher than the repayment price. Take 4½ per cent., 1955-60, or 5 per cent. 1939-44. All these are at a discount as compared with the price at which they are redeemable on the due dates. In their cases there is really profit on the date of payment except 1945-55 and some of the 6 per cent. bonds of which one or two years have to run; all the other securities now stand at below the redemption value. So you have really chosen the most difficult one.

8898. If you deal with that adequately, then the others do not matter. Regarding that, you agree that a different provision will have to be made. Where securities are bought by the bank at a premium over the then value, a different provision will have to be made?—Then we should provide such figures as would bring it to par before the date of payment.

8899. *Mr. Shanmukham Chetty*: So you will have different schemes of a depreciation fund, for loans for which the bank paid at par, then for loans for which the bank paid at a discount and for loans which the bank purchased at a price higher than the redemption price; you would have three different kinds of depreciation?—It is on the basis of the number of years it has to run.

8900. But then these three different kinds of paper must be dealt with differently under different rules; what you said was for paper for which the bank paid at par, 1½ or 2 per cent. depreciation?—For which the bank acquired at a discount or at par. It means the same.

8901. Then for loans which the bank purchased at a price higher than the redemption price, it must provide a fund equivalent to 1½ or 2 per cent. as the case may be, *plus* the premium that they paid?—Yes.

8902. *Mr. Manu Subedar*: Why do you want a higher rate in the case of 30 years' redemption?—This proposal has received fairly favourable consideration from Sir George Schuster.

8903. *Chairman*: Unless you have the authority of Sir George Schuster to make that statement before the Committee, the Committee can only consider it as your proposal?—It is my proposal; he has not said that he would accept it. It is a subject which I have discussed with him and which I think is very important in view of the difficult situation which Indian banks are passing through. I would like to read out to you this portion of my statement:—

> "But, even so, the extreme depression through which Indian trade, commerce and industry have been passing in the last four years; the devastating depreciation which has occurred in properties: the impaired economic vitality all round; the consequent increase in the number of frozen or 'doubtful' advances; the difficulties, expenses, worry and losses connected with their recovery; the paucity of business; the keener competition; the unavoidability of making large investments in gilt-edge, both because of lack of other suitable or realiable investments and because of the need of keeping as liquid a position as possible, in view of the difficulties of the general financial situation; the earlier frenzied uprise in gilt-edge, leading to still more diversion of funds in gilt-edge; the sharp and steep decline in the values of government securities ever since the latter half of 1926; the resultant need for making large and larger provisions for such depreciation; the reduction in the amounts available for dividend distribution; the repercussions, in regard to deposits, of the lower dividends; the growing uncertainty as to the present and apprehensions as to the future, as a result of shrinkage in deposits, in the scope for outlay of funds, and in margins of profits—such is, in brief, the tale of woe which the Indian joint stock banks, barring a few—a very few—exceptions, have to narrate of their present plight."

8904. It is really that description to which I referred at the beginning of my question. Am I to understand that the solution which you propose to remedy this state of affairs is this scheme of yours regarding charging of depreciation on gilt-edged securities and that you have no other proposal to make in that connection?—There is no other that can be made.

8905. As it is, the tale as it stands, is a very gloomy one?—Yes.

8906. *Sir Purshotamdas Thakurdas*: There are others which can not be remedied even according to you?—Yes.

8907. *Chairman*: Your scheme for writing-off depreciation in Government securities can only apply in the case of terminable securities?—Yes, I would add to that securities whose cost price is below the redemption price.

Mr. Khaitan: You said below or at par.

8908. *Sir Purshotamdas Thakurdas*: It would not apply to 3 per cent. Government paper?—No. It would not apply to 1945-55, because a further provision will have to be made for that paper. In fact my scheme would not apply to non-terminable loans and loans whose cost price is above the redemption price.

8909. *Mr. Khaitan*: It will apply to securities bought at a premium subject to providing the amount of premium?—Yes, there should be amortization of the premium.

8910. *Chairman*: I think, in answer to a previous question you said that owing to depreciation all round, at the present moment, joint stock banks have to invest more largely in these gilt-edged securities than they need otherwise have done. Supposing depreciation passes away (and I hope it will pass away at any rate some day) and then the joint stock banks want to sell what they had invested so far in gilt-edged securities of the type you are referring to, *i.e.*, terminable ones, and to invest the money in ordinary commercial business or in an industrial concern which many of the Indian joint stock banks do not hesitate to do, what would happen?—The loss referring to the portion realised in that year would be debitable to the current revenue.

8911. And to that extent the revenues of that year may have to bear a larger loss?—As you presuppose that trade would be livelier, banks can invest on a better scale; they can afford to bear that loss a little bit more cheerfully. Now when trade is bad, they could not make profit, yet they have to put up such heavy depreciation.

8912. Are you aware of any similar provision in any other country in regard to writing-off depreciation?—I am not aware of any. As a matter of fact, this scheme was my own so far as I am aware. I have not read of a similar thing anywhere, nor have I known of a thing like that to exist.

8913. Conditions which prevail in India at the present day are also prevalent in many other countries, that is conditions in regard to depreciation of Government securities which faces India at the present day also exist in many other countries. But in no other country, so far as you know, have they attempted any such scheme of writing-off the depreciation?—There has been no country in which gilt-edged securities have dropped to the extent they have dropped in India. There is no other kind of liquid security available to them here. In other countries there are many kinds of securities available; there is the discount market and rediscount facilities, because the banking system is more efficient. Here in India, on the other hand, it is not developed. The only recourse that Indian banks can have by way of liquid investment is Government securities and yet they have to write-off a good portion. It is a peculiar circumstances in India.

8914. As regards your second point, I think you told us that the position will improve when the Reserve Bank is brought into existence and it was the vital reason you gave for the early establishment of a Reserve Bank in India. When that is done and a joint stock bank will have in its portfolio a larger volume of bills and a smaller volume of Gover nent securities, would that in itself not make a solution of the present difficulty?—To

take the most optimistic view about it, it would be another two or three years before the Reserve Bank is started and the position in regard to Indian banks does not allow of much delay.

8915. *Sir Purshotamdas Thakurdas*: You recommend this in order that bank dividends may not fluctuate in such a manner as at the present juncture or in similar circumstances as may affect the credit of banks. That is the motive for a recommendation of this idea which has no parallel in other countries?—Yes.

8916. You later on refer to shrinkage owing to dividends. I think it would be fair to say that the general confidence of the Indian public in that bank would suffer if you leave any loop-hole behind in your balance sheet. Do you not think that the public will say that although the bank has paid a dividend, there is 5 or 10 lakhs to be made up in securities at the end of 5, 10, or 20 years according to the currency of the security?—As a matter of fact, at the time of redemption you are going to make a profit.

8917. The bank holds a paper between 15 and 20 years. According to your scheme a provision of only 1½ per cent. need be made. It may still show a deficit of 20 lakhs in those deposits at to-day's market rate. A depositor looking at the balance sheet (and I presume you would require the auditor to certify the balance sheet) would say "securities at purchase price and nothing else"?—We are not to add, as we now add, the market prices.

8918. An inquisitive shareholder will enquire what the purchase price is and he would be entitled to the information?—He would not be entitled to the information. Suppose I put a question at a bank-meeting, they are not bound to supply the information.

8919. But at a bank-meeting to-day you are entitled to ask whether the securities are at market value?—But they would not be entitled.

8920. Would that not by itself make the public very suspicious?—On the whole that we expect the average depositor to understand the mysteries of a balance sheet to that extent is giving him too much credit. The dividend is reduced and that is the only factor which is easily indicated by word of mouth from person to person, but the elucidation of the mysteries of a balance sheet is beyond his ken. It is the lesser evil of two alternative evils.

8921. Reducing dividends straight off, for a limited period of years, owing to the exceptional circumstances which prevail in India to-day, is the greater evil of the two?—Yes.

8922. How would you expect, for instance, the Chairman of the Association of Exchange Banks or the manager of a competing bank, to consider a balance sheet of this nature?—On the whole, Indian banks do not do much dealings with exchange banks now.

8923. But you are more hopeful about the future?—I am very anxious to create more cordiality. Why there is not that cordiality, that give and take between exchange banks and Indian banks even on the existing balance sheets is because there is a suspicion against Indian banks. When it is understood that these are only investment securities, these are bonds to be redeemed at par and the worst happening, there is already a provision, that should be enough to inspire confidence in a bank. They also know that there are troubles beyond the control of any banker.

8924. In a word, my question is where you find foreign non-Indian banks writing down the securities, whether they are in India or elsewhere, and Indian banks having a hollow behind them for a limited period of years, you do not think that the prestige of the Indian bank will suffer more in the eyes of the depositor than by reducing the dividend by 1 or 2 per cent. temporarily and making a clean breast of it and saying we are still solvent?—I wish our public can understand that straight and frank talk. They do not.

8925. As you see the public, you would rather resort to this than the other?—I have had this point before me by one or two prominent men connected with Indian banks.

8926. *Chairman*: That is, the depositor would not understand that owing to depreciation about which he has definite information there has been a reduction in the rate of dividend; on the other hand, he would appreciate the other position which will absolutely keep him in the dark about the true position of the bank. That is your view?—I do not say that it is any misrepresentation of the true position of the bank.

8927. The authorities responsible for legislating in the matter will take it up; they are sure to look at it from that aspect of view, *i.e.*, if it is proper simply to say there is a loss of 1 or 2 per cent. when the person who is entitled to the dividend knows from what he sees round him every day that there ought to be a shrinkage in the dividend. Instead of making him suffer a reduction in the dividend, would it be better to have a picture which will not be intelligible to him and which would, as a matter of fact, be hidden away from him? Do you think it would be reasonable to ask the legislative authority of the country to undertake a legisaltion of that sort?—Quite.

8928. *Sir Purshotamdas Thakurdas*: Talking about the temperament at the Indian, I take it you are also aware that dame rumour plays a lot of mischief with the depositor and where correct information is not available in the balance sheet, an antagonistic banker or broker or depositor or director may do the rest of the mischief by making things look worse than they really are. I only wanted to mention it for your consideration.

8929. *Chairman*: According to your scheme if any shareholder at this stage wants to know what the correct position is, he will be told definitely that under the modified law the management of the bank are not bound to disclose the position to him and therefore the position will not be disclosed to him. If that comes on the top of the dame rumour to which my colleague referred, do you think that the position of that bank will or will not suffer?—As I said, taking the very worst view of the position, my proposal is the lesser evil of two alternative evils.

8930. When times change and one of these banks wants to invest a portion of the money held in Government securities in, say, some form of industrial concern, would you say at this stage that the bank must write-off the full depreciation which means the difference between the cost price and the sale price on the particular lot?—It must in that very year.

8931. Will not that in itself militate against any initiative on the part of that joint stock company to make more money available for, say, an industrial concern, because the managers know that they will have immediately to write down a certain sum of money, and to that extent it will reduce the profits of the bank. Money invested in an industrial concern

will of course take some time to bring its return, but it is owing to depreciation, as you yourself say, that banks are reluctant to increase their investments of this class and therefore they are putting more money in Government securities. When times improve and when the management of that bank finds that it would be safe for it to sell some of these Government securities and invest the money in an industrial concern, which probably after 3 or 4 years would bring to it an adequate return or more than an adequate return, would this particular suggestion of yours not make the management feel more shy about the matter?—Firstly, when a bank gets more and more investments, the usual custom is that a bank is not to sell securities so much as to borrow money on the securities; as a matter of fact very little of the securities can be sold. If a bank holds 5 crores of Government securities the fluctuation in the total will not be more than that. Whatever loss might occur on a lot like that can easily be shown in a particular balance sheet. Instead of providing for depreciation in the total lot, providing for depreciation only on a small portion should be a comparatively easy matter. Secondly, you mentioned that when a bank invests money in industries, they may not get the income immediately. After all, a bank is not going to invest in shares. A bank, when it gives money to industries gives it as loans, realising its interest month by month or half-yearly, so that the question of their having to wait for the profits of their investments on industrial propositions does not arise.

8932. But still the money which they get by way of interest on the loan they make may not in that particular year make up for the amount they may have to write-off on that particular amount of Government securities?—A situation like that is very unlikely to occur to-day. Half-year by half-year they write-off the depreciation that has taken place in the six months on the entire lot. Then they will have to write-off only on a small lot and there is the general reserve against gilt-edged securities. 1½ per cent. is already provided for and I do not think the contingency you are anticipating will occur. It ought to be compensated by the increased profit they must be making as a result of the livelier trade which is the condition which would necessitate their realising the securities in order to divert it to industrial investments.

8933. *Chairman*: Do I gather you to say that when the bank goes to the Imperial Bank for a loan on these gilt-edged securities it must at that stage also write down the securities to the market value?—Not when they take a loan but only when they sell.

8934. When they take a loan the party can only give it on the basis of the market value of the securities and not on the value against which the banks hold them in their stocks?—There is a margin generally of 5 to 10 per cent., and it is not strictly adhered to.

8935. *Sir Purshotamdas Thakurdas*: The point which the Chairman wanted to bring out was at what rate that bank holding such securities will be able to borrow and your reply to the Chairman is that no bank would lend on anything else than at the market rate with a margin?—That is so, but so far as the balance sheet is concerned this question does not arise.

8936. *Chairman*: You say that a great deal of the future prospects of Indian Banking will depend upon the ability of the Indian banks to assimilate the virtues of modern European banking and of age-old indigenous banking and to reject the vices of either. The Committee would be very grateful if you would expand your ideas a little more fully and indicate the

points on which you want to lay special emphasis?—In regard to what Indian banks may profitably learn from western institutions, I would deal with these first. Firstly, greater efficiency, thoroughness and greater attention paid to the training of staff. These are some of the points regarding which Indian banks should pay special attention. Quickness of work and promptness in attending to enquiries, these are also things to be considered. I do not say they are not doing so now but there is certainly a difference in the tone. If you take a cheque to an Indian bank, they take an hour and a half and then you would get cash Now there are banks which have put up notices something like this—"if you take more than 5 minutes to get your cheque cashed, please report to the agent". Probably training of staff, making them more alert and courteous to the clients, these are matters on which the Indian banks can very well learn from the western banks.

8937. *Sir Purshotamdas Thakurdas*: In one word, it is internal discipline?—Yes. In regard to economic management our Indian banks have proved that they can manage their concerns very cheaply. The Punjab banks have got a large number of branches and still they are managing their institutions very economically. In this connection I think of the Postal Department. There have been very few cases of defalcation in spite of the fact that huge sums of money pass through post offices and these postal authorities are not highly-paid men. It should be possible to man our banks also cheaper and make them well spread, as the postal system is. I want the cost to be kept under and the efficiency kept at a high level all the same.

8938. *Chairman*: I feel gratified at your remarks on the working of the Indian Postal Department in which I have taken a great interest, but let me tell you that you are a little out of date. I had to raise the pay of these people to what I considered adequate to the present conditions in India although I must still admit that they are not getting their due; but that is another matter?—I quoted the instance of the Postal Department only to show that the handling of money can be made with very great safety by comparatively poor paid people as well.

8939. You deplore the lack of *espirit de corps* among Indian banks. Could you suggest any remedy for this state of affairs?—You cannot compel them to behave better with each other. There is jealousy amongst them because they are all weak and I think that when they become powerful banks, they will all become friends.

8940. Here is the scope for you?—As a matter of fact, I think I can claim this privilege of having brought together for the first time all the heads of the Indian banks in Bombay and also in Calcutta together. I have also done my very best to bring the Indian banks and the exchange banks together. After all, I am an outsider except for my personal relations with the bankers. With the development in banking and with the good offices of persons who have got the interests of banking at heart, the solution to this problem must come though it is a very slow and difficult process.

8941. What I was trying to suggest to you was, is it not possible for your paper to do a certain amount of continued propaganda in this respect?—I am doing that now.

8942. You make a suggestion regarding the issue of gold certificates. You say that any one depositing Rs. 80 worth of gold may be entitled to

Rs. 100 worth of gold at the end of five years. This would work out at an interest of 4½ per cent. Do you think that this is an attractive yield to encourage people who hold gold stocks in small or big quantities to deposit it with Government?—I find there are a few questions on gold certificates. I would like to make a preliminary observation. When I developed this idea of gold certificates, it was with considerable hesitation. I have put forward this proposal more as one worthy of careful consideration than as one which is practicable or may be practicable even at a distant date. The answers that I can give on this question are those mostly based on sentiment and psychology. We are dealing with facts which we cannot get but which we can only surmise out of experience.

8943. I want to make an observation on your preliminary remarks. Let me assure you that every one of your suggestions will receive the most careful consideration on our part. I certainly feel that the object underlying them is good and has been made in the interests of the country and the spirit in which I am asking you these questions is not one of hostile criticism. I am simply trying to get more detailed views from you?—My preliminary remark was made merely to indicate that in developing a scheme like that I had not the facility to make it a complete scheme.

8944. You have simply given certain figures in dealing with this point by way of illustration?—That is so.

8945. You say that by your scheme of gold certificates whether or not the innumerable individual small hoards would be appreciably affected by the scheme, the hoards of medium and bigger sizes would assuredly contribute a large amount of gold to the reserves. Would you kindly tell the Committee whether you have any facts and figures to show the volume and size of these hoards that you are referring to?—There are several Maharajas, Rajahs and Mutts as also several of these Gujarathi ladies who keep a lot of gold sovereigns. The tendency to purchase sovereigns is great. When I was in Lahore I was trying to get figures about the import of gold into the Punjab by rail. Punjab has been a great hoarder of gold due to the economic development there. There is a lot of free gold in the sovereign form especially in the Bombay presidency and the Punjab. You will find lot of gold in the shape of ornaments in South India. Whether much of these gold would come into the scheme it is difficult to say, but generally speaking, I think a good portion of the gold now with the Indian States and the Mutts would certainly come into this scheme. If they are assured they will get back their gold any time they want and would also get interest, then I think the gold will come in. It may also be possible to get a good portion of the gold from Punjab and Bombay into this scheme of gold certificates. About these ornaments it will be very difficult to assess their value. So the problem connected with the acceptance of gold would present difficulties except at centres where there are conveniences for valuing them. Therefore the Imperial Bank or the Government treasuries in the bigger towns could possibly be able to value gold at those centres.

8946. We will separate the question into two parts (1) gold in the form of sovereigns and (2) gold in the form of ornaments. Now in regard to gold not in the form of ornaments you are largely counting on the amounts held in the Indian States, religious institutions and also to some extent from people in Gujarat and the Punjab. I suppose you have not had any opportunity of estimating even roughly what that amount would come to?—I would put the figure with the ruling chiefs at about 40 crores and I would put the free gold in the Punjab and Bombay at about 30 crores.

8947. Would it be possible for you to give in any broad outlines the basis of these estimates?—I put a certain figure for the Nizam, another figure for the Nepal and these I had occasion to know something about because at the time when gold went up to Rs. 23 I was consulted whether gold could be sold. I know the Maharajah of Durbanga has still got a very large quantity of gold. Considering all these I put 40 crores as the amount that would come in that way. As the Nizam year after year is investing his hoarded cash in Government securities, in the same way he will also invest his gold on these gold certificates.

8948. I will now pursue your point in the case of the gold ornaments. I think you have now said that you would restrict your proposal. That is you do not want to bring in rural areas but would confine only to certain principal centres. Let us assume that one of your centres is Amritsar. Now ladies come in and deliver their gold ornaments and I think you told me that many of these possess surplus ornaments and if they deposit these ornaments it must be retained in the currency reserve or in the treasuries as ornaments and you agree it cannot be melted into gold?—I think it should be kept as ornaments themselves, but there are difficulties there also.

8949. Therefore it will have to be kept at Amritsar itself because a lady may have to attend a ceremonial function and if you had moved her ornaments to Lahore it means you cannot produce the ornaments because these will have to be kept on demand or in safe custody. Do you think, while I fully appreciate the general desire, this would really be possible?—I want to show a parallel in the currency reserve to-day. Our currency reserves are all spread out in the different areas of the country. With regard to the silver rupees we may have some at Amritsar, some at Agra, some at Lyallpore and so on. They are all not stored at one place. Why not consider, therefore, your gold reserve is also placed at different centres?

8950. Here the difficulty is you will have to keep these ornaments in safe deposit. Supposing the ornaments were mixed up, the lady would not even give you even a day's notice. She comes up and says, I want my ornaments this evening. Then what is going to happen?—There should be no difficulty. Ornaments of each lady must be kept separately.

8951. What about your gold certificates then?—Just as in the postal cash certificates as you are able to get your capital and interest at any time you will also provide for these gold certificates and say that the interest is paid only up to the date the ornaments are left with the Government. Of course, there might be some delay in paying off the interest.

8952. *Chairman*: You mean that the lady must wait all this time and she must wait until the various processes have been gone through before she can get back her money, *i.e.*, her interest?—In this scheme there is an inducement for her to keep her ornaments with the Government as long as possible. If she keeps them for a short period she gives the certificate and gets back her jewelry whenever she wants it.

8953. What about her interest that is to take some time?—I do not think there will be much difficulty.

(Second witness): Sir, is it necessary to presume that the ornaments will be withdrawn at a moment's notice and on the telephone?

8954. *Chairman*: I am simply speaking of my experience with ladies in northern India?—The ladies ought to be able to anticipate their

requirements at least some time before the actual moment when they want to use them. The difference between the ornaments and rupees is that the latter will be mobile while the former cannot be moved from one centre to another?—Rupees have to be mobile. You are not going to issue gold against notes.

8955. You say that in order to combat the danger of unreasonable runs on banks and undeserved liquidations, it is necessary, as a starting point, to have such legislative action as will hold forth to the public the assurance of honest and efficient management. One particular step you recommend is to have a system of state audit and supervision. Would you kindly tell the Committee in what other directions you would require legislative action for the end in view?—I am for the Reserve Bank having a department to look after this audit and examination and I think the system in the United States of America affords the best clue as to the way in which we should proceed in this matter. I am most emphatic for a system of state audit and supervision which obtains in the United States.

8956. So you would substitute that for the ordinary audit and supervision and till the Reserve Bank comes into existence, you would not have State audit and supervision?—If Government could take immediate action on the lines I suggested, I would recommend them strongly.

8957. As regards the State audit and supervision a joint stock banker of many years' experience has expressed the opinion that efficient management is of more value than official audit and that one cannot make a fetish of independent official audit. Would you kindly state your views on this suggestion?—With due respect to the experienced joint stock banker who expressed this view before the Committee, he is after all in the nature of a victim looked at from the point of view of audit and therefore he cannot be expected to be in love with the instrument of execution.

8958. You refer to the suggestion of converting the Imperial Bank of India into an all-India Industrial Bank after a new Reserve Bank has been created. In the first place it will be a matter for the shareholders to decide whether the Imperial Bank would continue to be a commercial bank or would convert itself into an industrial bank. Do you agree?—As I made a preliminary remark on the gold certificates, I say that this is only a tentative suggestion worthy of consideration. I know there are many difficulties and there is much to be said for and against it. I have advanced this merely as a question which merits your consideration. I believe that if a Reserve Bank is started, it stands to reason that the Imperial Bank will not have the same facilities which it is now enjoying as the Government's banker. At any rate, I would not like that it should be given those facilities; but I say that when these facilities are taken away from the Imperial Bank, all the profits arising out of those facilities cease to find a prominent place in the annual profit and loss account. It will be difficult for the Imperial Bank to carry on, considering that it has grown up under very costly management; in order to make up for that, we have to give the Imperial Bank an opportunity to make profits in another direction. I believe that such opportunity will come if the bank were converted into an industrial bank with certain facilities and with a right to issue debentures. It would be in the nature of creating a special field, a special opportunity for the Imperial Bank and also the possibility of its making up profits for what it would be losing by the discontinuance of the present

Government facilities. In view of these circumstances I think the shareholders would accept a scheme of this nature.

8959. This is your scheme but your point is that this will be a matter for the shareholders to decide?—Certainly.

8960. Will not the Imperial Bank be able to render large assistance to industries so far as working capital is concerned, even without converting itself into an industrial bank and without restricting its operations solely to industrial advances?—I have not intended that it should not do those operations of a commercial nature which arose from its dealing with an industrial concern but I want to give the bank the right to issue long term debentures for financing industrial concerns.

8961. Therefore, is it a part of your scheme that the Imperial Bank, in addition to issuing these long-term debentures, should continue to receive the short-term deposits which it is now receiving and use it to provide the working capital for these various industrial concerns?—Quite so.

8962. Would you kindly explain to the Committee in some detail how the Imperial Bank will dispose of its commercial business which is not related to industries?—Take the Imperial Bank balance sheet as it stands now. I find that loans, cash credits and bills—these are some of the facilities extended to trade and business and industry combined—come to 49 crores. Of this, though I could only make a hazardous guess in this matter, at least 70 to 75 per cent. would be invested in financing industrial concerns for their short-term requirements.

8963. Now or in future?—Now. The advantage to the country which the Imperial Bank will give in financing an industrial concern is that its staff is already trained in a proper assessing of the worth of the various persons and agencies in this country. They have got branches all over India. They have got men who are well acquainted with the business conditions all over the country. Of course the real difficulty of an industrial bank is to acquire direct and personal experience. Here we have trained staff ready-made, the organisation is ready-made and the capital and reserve are so big that they are adequate for the purpose and altogether the purely commercial advances which have nothing to do with industrial concerns should not be of such a big size as to present any serious difficulty.

8964. You have already referred to the various advantages derived by the country by the branch-banking activity of the Imperial Bank. Would you kindly tell the Committee by whom this activity will be pursued in future if the Imperial Bank is converted into an industrial bank?—As I mentioned on an earlier occasion. I want the Reserve Bank to keep a list of approved banks.

8965. I thought you had said that there might also be branches of the Imperial Bank?—My difficulty is to argue on the basis that my scheme is not acceptable.

8966. If the Imperial Bank is switched on to industrial business, to that extent your scheme will be modified?—Yes. A list of approved banks must be maintained and each one of the banks which opens a new branch, over and above the number of branches owned by the bank on the date on which the Reserve Bank Act comes into force, must be given half the cost incurred on the new branch for 3 or 5 years; secondly, as a further inducement, if at any centre where there is no agent of the Reserve Bank,

one of these approved banks opens a branch, that branch will be entitled to conduct the treasury operations of Government. These two facilities extended to the approved banks would certainly give a good stimulus to the expansion of branches.

8967. You are aware that many of these joint stock banks at the present moment are advancing money to industries for long-term requirements. Therefore this scheme of yours, if it is accepted will kill that business?—I do not think any commercial banks can or do advance money for long-term requirements.

8968. The 6 months provision does not apply in the case of all joint stock banks. It applies in the case of the Imperial Bank but loans on mortgage are not prohibited in the case of joint stock banks?—But they do not advance money.

8969. Here again we have been told by an experienced banker that his firm advances money to industrial concerns on mortgages?—They might have advanced money and the company might have got into trouble and then they might have made the concern to execute the mortgage.

8970. The impression left on my mind by the statement of the gentleman was that it was not unreasonable for joint stock banks to advance money on mortgages and the Indian Companies Act did not forbid the grant of those advances?—I know there is nothing like that in the Act, but a prudent financier would not lock up money.

8971. You say that it is not desirable that the Imperial Bank should dabble in exchange. You are no doubt aware that the Hilton-Young Commission recommended that the Imperial Bank should be freed altogether from the restrictions which the present Charter imposes on it as soon as the Reserve Bank is established. Sir Norman Murray, giving evidence before that Commission said that the restriction on exchange business debarred the bank from what is a very profitable business and suggested its removal as it impaired its profit-earning capacity. You also know that the Imperial Bank of India Amendment Bill which was introduced into the Legislative Assembly in 1927 along with the Reserve Bank Bill provided for the removal of this restriction on the foreign exchange business of the Imperial Bank. Is it your considered opinion that even after the Reserve Bank is established, the limitation on foreign exchange business should continue to be imposed upon the Imperial Bank?—With regard to this question, as I explained, I have had this in my mind that the Imperial Bank should be a kind of industrial bank. With that bias I have evidently written what I have said, namely, that the Imperial Bank should not dabble in exchange. But I do not mean that the Imperial Bank should continue to have the restriction placed on them as it is, in my opinion, an unfair restriction. It should not have been put on the bank from the beginning. It should have the freedom to do exchange business but if, as I have suggested, it is converted into an industrial bank, it should not enter into that kind of business.

8972. If the Imperial Bank wants to take over more and more work connected with the industrial banks in regard to long-term loans, that is, if it opens a mortgage department to deal with the initial capital and the block capital for extensions on industrial concerns, nothing stands in the way of their doing so. Once the Reserve Bank is established and the Imperial Bank Amendment Bill in the form in which it was contemplated in 1927 is passed by the legislature, is it your intention that by some means

or other the Imperial Bank should be compelled, subject of course to the agreement of its shareholders, to confine itself to work connected with the financing of industrial concerns both long-term and short-term and that it should cease to do other commercial work and not take up foreign exchange work? Is that your real proposition?—You have to understand my proposition in the light of what I conceive the Imperial Bank to be when it is converted into an industrial bank.

8973. Supposing it is so converted, then would the picture that I have just drawn up be a correct picture?—It should not allow its energy to be diverted into other channels.

8974. *Chairman*: Is that the correct picture which you envisage?—It should not allow its energies to be diverted by commercial business.

8975. It has got a staff which will be relieved of a certain portion of its responsible work and you probably know that even now it is doing a certain volume of foreign exchange work. It may amount to anything up to 10 millions in a year. Supposing its activities in particular directions are curtailed, and the bank with the approval of its shareholders wants to open an industrial department or a mortgage department which will deal with the long-term requirements of industrial concerns, why should it be prevented from carrying on commercial business and also undertaking foreign exchange business, if it thinks it desirable or profitable to do so?—Your question is, although predominantly an industrial bank, why should not the Imperial Bank be also doing commercial and exchange business.

8976. The point is: why should it be restricted to doing one class of business?—I do not want any restriction.

8977. Therefore, if the Imperial Bank does take over work connected with industrial concerns, *i.e.*, the grant of long-term credit, you really do not intend that it should be debarred from carrying on commercial banking or from taking up foreign exchange business?—The proposal connected with the Imperial Bank becoming an industrial bank will have to be examined so carefully and so much on its own merits that what it should do if it is to be an industrial bank and what it should not do should be a consideration by itself. It would not be possible for me to commit myself to any definite statement that it should be able to do all sorts of things. What happened with the Tata Industrial Bank should be a warning against combining commercial banking, industrial banking and exchange banking all together.

8978. I have never been able to find out what was at the bottom of the failure of the Tata Industrial Bank, but I have reasons to believe that it was not the combination of the various businesses that led to its failure. You are no doubt aware that on the Continent they have very largely adopted this system of mixed banking without any difficulty from the financial point of view?—Their growth, their reserves, the traditions they have created and the directorate they have got stand altogether on a different footing.

8979. We are talking of the Imperial Bank. Look at its reserves and the traditions it has created. If there is any bank in India for which it is possible to undertake mixed banking, I should have thought it was the Imperial Bank?—If, in making the Imperial Bank an industrial bank it is found that it should strengthen that business by doing mixed banking, by all means let the Imperial Bank do it. When I mentioned about the Tata Bank, I happened to be in Bombay at the time and I was fairly

carefully watching the developments in the financial world then. There are very many reasons which led to the downfall of that bank, but certainly the combination of the various functions was one of the factors which at least appeared to be a reason to an outside observer like myself. I was not on the directorate or in the confidence of the staff, but as one who has observed things, who has been attending the meetings of the bank all the six years of its existence and who has studied the progress of the balance sheets, it certainly seemed to me that the combination of these functions was not very happy.

8980. But even assuming that the whole reason for the failure of the Tata Bank, or the main reason, was the combination of functions, the resources and traditions of the Tata Bank were nothing like those of the Imperial Bank?—Quite true.

8981. I think I have managed to get your point: that is, you, do not press that if the Imperial Bank wants to take to Industrial banking, *i.e.*, in the direction of creating long-term advances, by raising debentures or otherwise, and if it also wants to carry on commercial banking, and foreign exchange business, you would not object to that arrangement?—I would not.

8982. You say that the right to take deposits has everywhere been withheld from foreign banks. The Committee would be glad if you would supply them with references in support of this system?—I am afraid my statement is wrong. So far as I can make out, it is only in the United States of America that a restriction on deposits is placed.

8983. You say that in return for the grant to the exchange banks of the right to take up deposits, they should be asked to undertake to staff their offices with Indians up to an agreed percentage. In this connection you referred at an earlier stage to the action taken by the Board of Trade in England. Is it your idea to work this percentage proposal with reference to each grade of officers in the bank?—I think how Indianization ideas are worked up in Government departments should be some sort of guide for us in this connection. When we talk of Indianization in Government services, there are certain principles already recognised and there are certain ways by which that scheme is given effect to. We should be able to formulate our proposals by a careful study of those things.

8984. Then you do not take your stand on the Board of Trade regulations?—I myself have not read those regulations carefully. I have only heard of them.

8985. We were discussing them when another witness was giving evidence and I gathered that exchange banks are practically following regulations similar to the Board of Trade regulations, because the Board of Trade regulations certainly do not refer to each grade of officers. It refers to the total employees and each exchange bank has got a large number of Indian clerks, etc?—I would not be satisfied with that.

8986. Do you think it would be possible for Indian joint stock banks in the near future to get any material share of the foreign exchange business by training a certain number of Indians in this work?—When the business thrives and when more business is going, it should be possible for the men who have been trained to form the nucleus of the staff required for an Indian exchange bank.

8987. A separate Indian exchange bank or the foreign department of an existing joint stock bank?—It may be either.

8988. You are aware that at any rate two Indian joint stock banks have already started doing foreign exchange business, though they had not had the advantage of men trained by foreign exchange banks?—I know of one bank; I do not know the second you refer to. That bank had the advantage of the Tata Industrial Bank from which they took over about 30 assistants who were taken from other exchange banks in India and it was this staff that was responsible for chalking out the lines on which exchange business was to be done and it was the organisation created by this staff which was taken by the Central Bank.

8989. Was this staff Indian?—No, it was European staff.

Therefore, if an Indian joint stock bank wanted to start foreign exchange business to-morrow, the question of staff would not constitute a serious impediment, because if the Tata Industrial Bank managed to secure European employees of foreign exchange banks by giving them proper terms, and it follows precisely what your ideas are about joint stock banks taking over Indian employees of the Imperial Bank, then no Indian joint stock bank need wait until a certain number of Indians have been trained by foreign exchange banks before they start foreign exchange business?—An examination of the reasons why Indian banks have not been doing that business in foreign exchange would reveal that it is not merely the question of staff; it is a question of their having the requisite capital, the requisite resources, the capacity to arrange for facilities at the other end and also the capacity to be able to bear any loss that would have to be borne in the initial stages by having the office in London for example. Suppose a bank has a credit arrangement fixed up with one of the London banks; against that it keeps operating in the exchange market, but it can only do a limited business till it has a branch and that branch is able to get its signature accepted as good enough for bills in the London market. It would not be an easy matter for an Indian bank to compete with exchange banks for business. As European importers and exporters are attached to so many banks, Indian exporters and importers are likewise attached to foreign banks. When an Indian bank starts business, it would not be easy for it to get business in the beginning; when a man wants to give up his connection with an exchange bank and come to an Indian bank, he would consider whether the Indian bank would continue to do this business for a long time and if he broke the connection which he has had with the foreign bank for, say, 20 years and if the Indian bank did not continue for more than a short time, whether he would get back the same facilities if he were to go back again to them. There would thus be so many difficulties in the way of Indian banks doing exchange business at the present moment.

8990. Therefore the lack of trained Indian staff is not immediately a material consideration?—No.

8991. As a matter of fact, we have been told by the Managing Governor of the Imperial Bank that if the restriction against foreign business was withdrawn, in the case of his bank, they would be able to tackle a large volume of the foreign business in two years' time and that led me to think that perhaps there was not sufficient substance behind this line of argument of yours, *i.e.*, that all you want is trained Indian staff?—

Also careers for our trained men. Why do we want Indianisation of services? We want to open for our young men good careers. The experience gained by these young men will not be lost; it will bear fruit one day or other, meantime it will open out careers for our young men.

8992. I mentioned this because you have stated in your memorandum: "But such a view overlooks the fact that exchange banking is a highly technical matter in which experience counts for a great deal more than people can imagine and the staff of the Imperial is ill-fitted for such a venture." That is why I tried to find out whether you consider that the absence of trained Indian staff constitutes the only difficulty in the way of Indian joint stock banks embarking on foreign exchange business?—If the Managing Governor of the Imperial Bank said that the training is not so difficult as I have taken the view, he must be more competent to speak in the matter.

8993. He did not speak about training. He said that if the restriction was removed, he should be able to take up foreign exchange business in a short time?—It is not a training that should require a life time to acquire, but it is a difficult training, and if opportunities could be afforded to our young men, it is a thing to be welcomed.

8994. Therefore if this Committee were to prefer that an Indian joint stock bank should acquire a foothold in the field of foreign exchange and that it is more important than switching off the Imperial Bank into the field of industrial long-term finance, you think it would not be unreasonable on their part to arrive at such a conclusion?—I presume I am right in understanding that what you suggest is that instead of the Imperial Bank converting itself into an industrial bank, it would be far simpler and better that it should convert itself into an exchange bank.

8995. Not 'convert', that it should be allowed, *i.e.*, that the present restriction should be withdrawn?—Certainly, if the Imperial Bank has the necessary capital and necessary reserve, also if the London office and the London Advisory Board are able to undertake exchange business without the difficulties which stand in the way of other Indian banks.

8996. You say that it would be open to India to impose those restrictions which foreign exchange banks have to submit to in other countries. Do you mean to say that it is open to India to place on foreign banking institutions restrictions similar to those which the foreign bank's country of origin imposes on non-national banking institutions in that country?—Yes.

8997. I have three questions on the subject of indigenous banking. You say that you would welcome legislation calling upon indigenous bankers to register themselves and publish at least half-yearly statements of their assets and liabilities. Would you kindly tell the Committee whether you propose any counter advantages to be offered to the indigenous bankers to make them accept your proposed registration willingly?

(2) You say that all the indigenous bankers will have to be brought within the orbit of the Central Bank (I take it you mean the Reserve Bank) and other organised institutions. Would you kindly tell the Committee what relations you contemplate to exist between these indigenous bankers and other banking institutions and what particularly would be the relations between the indigenous bankers and the Reserve Bank?

(3) Would you kindly refer to the following note indicating certain alternative methods that have been suggested to the Committee for linking up the indigenous bankers with the Central Banking Institution? The Committee would be very glad if you could let them have your views on these suggestions:

(By indigenous banker is meant any individual or private firm receiving deposits and dealing in *hundis* or lending money.)

One of the Provincial Committees has pointed out that whatever be the prejudices against the professional money-lender, he lies outside the category of indigenous bankers and every one is agreed as to the desirability of recognising, preserving, and developing the indigenous system and adapting it so as to make it a part of a National Credit system. For this purpose two suggestions have been made, one by a Provincial Committee and the other by an Indian Chamber of Commerce:—

Suggestion 1.—The *shroffs* should be linked with the central banking institution of the country as its agents. The scheme in rough outline is as follows:—Instead of opening new branches in any part of the interior of the province, the central banking institution should select from the local *shroffs* or indigenous bankers a banker of good standing and reputation to act as its agent in that place. The banker selected to act as an agent should lodge with the bank securities of amounts that may be mutually agreed upon, having regard to the volume of business and other considerations. He should guarantee the minimum of business he is expected to secure at that place and in return receive adequate credit facilities at a preferential rate of interest and make advances to local customers at a profit, subject to the condition that he should not charge to his customers a rate of interest exceeding 2 per cent. over the rate he is charged by the bank. He should allow periodical examination of his books by the bank's inspector and submit to the bank half yearly or yearly balance sheets. This scheme should be introduced tentatively at selected places where there is no organised bank, either joint stock or co-operative. The funds received by him from the bank should be employed by him at his own risk in making advances within sanctioned limits and subject to such other general conditions as may be prescribed by the bank.

Suggestion 2.—The Reserve Bank when established should give the indigenous bankers the same facilities and concessions as to the joint stock banks. It is necessary that the restrictions imposed upon these indigenous bankers must take into account their peculiar needs. For this purpose the following recommendations have been made:—

(1) There should be a schedule of indigenous bankers similar to the schedule of joint stock banks included in the Reserve Bank Act to whom certain recognised financial facilities, *e.g.*, rediscounting should be given.

(2) Such indigenous bankers who may conform to the standard fixed by the Reserve Bank for the purpose should be included in the schedule.

(3) The account books of the scheduled bankers may be periodically inspected by the examiners appointed by the Reserve Bank.

(4) They should be allowed to carry on business of commission agents along with other banks.

(5) They should be prohibited from trading on their own account.

(6) The rates charged by these bankers to their clients should not exceed the bank rate by a certain percentage, say 2 per cent.

—If you prefer to do so, these three questions can be taken together. We are now coming into more difficult problems. I am afraid, in answering these three questions, especially the last one, that I would be more of a destructive critic than of a constructive one. I have myself been unable to formulate any definite plans or proposals, whereby this linking up of the indigenous *shroffs* with the banking system which I consider essential could be carried out.

8998. This is a very important matter and if you think that by having more time to consider the matter you would be in a better position to give us your views, I am willing to give you time and in that case you can send us a memorandum embodying your views on these three questions. If, as you say, your views are going to be destructive, we will have to pay great value to them as you will recognise they would not help us. If you do not like the methods suggested, it is open to you to say so, but you may have some counter suggestions or modifications to make?—I would prefer to be given an opportunity to send a memorandum on these three questions.

8999. *Sir Hugh Cocke*: About this scheme of yours' for prescribing that banks shall not be required to write down their securities below a certain figure, it practically amounts to this in the case of redeemable securities which have depreciated below the redeemable point you will provide that the banks would only be required to write investments down 1 or 2 points below the redeemable point but not as far as the market has gone?—Yes.

9000. Then Sir Purshotamdas Thakurdas put a question to you about the public inference and you said that the public would not be entitled to know. If such a provision were recommended by this Committee and if it became law it would be very essential that the holding of each of these loans should be stated. Do you suggest it should not be necessary? I am suggesting to you it will be necessary for the bank to state in the balance sheet the amount of each loan held and the price at which it stood?—As a matter of fact now what is being done is exactly what you are stating. Banks to-day, at least in two cases that I know of, in their balance sheets show the cost price as well as the market price. For the whole difference they are not providing depreciation. They are only providing for a portion. Strictly interpreting the Companies Law as it is to-day it is not necessary to give the market price at all. The bank at its option can give either the cost price or the market price. It is the auditors who insist upon the market price as well being given.

9001. That is so. With reference to the question of State audit which you are advising, I think you said that they would not be necessarily State auditors but specially appointed auditors by the Reserve Bank or the Government. Do you want the auditor to be wholetime State official?—That is my idea.

9002. You would not allow Government to appoint ordinary professional auditors?—If you see instances of bank failures you will find that it is the collusion between the auditors and the management that has been the real cause of the public not knowing the position of the concerns in time. That happened in the case of the Karachi bank, Boulton Brothers, Alliance Bank and so on.

9003. I do not think I can accept that statement but your point is that the auditors of ordinary banks should be auditors of some seniority and should be men of experience and at least 6 years' standing?—Yes.

9004. In regard to the special audit which would be undertaken at the instance of the Reserve Bank, I am not quite clear whether you will have auditors attached to Government who will conduct these audits or any prescribed list of firms who will do these audits?—It should be permanent officials of Government that should do this work or the Reserve Bank; but I am certainly for certain firms being allowed to do bank audits like that.

9005. *Mr. Manu Subedar*: You have referred in your memorandum to Indian aspirations in the field of banking, shipping, insurance and other directions. You are aware of the efforts made by Indians in shipping, insurance and other directions and the kind of competition that India has had to face. Have you reasons to suppose that if an Indian institution, less strong than the Imperial Bank, started foreign exchange business that would not be subject to the same kind of heavy competition by the exchange banks?—Whether the Imperial Bank enters the field or not, competition is there even between the exchange banks.

9006. You know the kind of competition which occurred in shipping business where passengers were not only carried free but were given some pocket money. Have you any reason to suppose that foreign merchants engaged in banking would be less deadly in their fight?—I do not think there is that ring in the exchange banking business. There has been no combine of any kind.

9007. You do not apprehend such competition?—Competition is there and is bound to continue, but it is not the kind of competition that the Indian shipping companies met with. Such competition will not obtain with the exchange banks.

9008. You also refer in your memorandum about the problem of Indian joint stock banks *versus* exchange banks and the need for creating a congenial atmosphere in which the Indian joint stock banks will not only survive but extend. You would therefore have all necessary provisions made to safeguard Indian joint stock banks against any serious competition from foreign banks?—I said so far as national banks are concerned, they are certainly entitled and they have a right to claim some measure of special facilities, especially as they will be new concerns starting in the country where there is proverbial shyness of the depositor and there is the difficulty of raising the necessary capital. It is certainly necessary therefore to give some facilities in the earlier stages.

9009. You are aware that one of the "Big five" among Indian joint stock banks has already been acquired by a foreign bank? I refer to the Allahabad Bank which has been amalgamated with the P. and O. Banking Corporation?—Yes.

9010. And there is nothing in law to prevent Indian banks being taken over by other foreign banks?—Likewise we can also purchase foreign banking concerns.

9011. There is nothing to prevent the Lloyds Bank to purchase the Imperial Bank. Would you therefore suggest that something should be done by the Banking Board which you are contemplating of to prevent this?—In regard to that I entirely agree with you. There is risk both in regard to the insurance and banking companies at present, and there has been lot of abuse. Take the case of the Alliance Bank. It was possible for Boultons to invest 16 lakhs and get control over the bank and then take away Rs. 6 crores. We know of several instances of insurance companies as well. There is the risk in these credit institutions that by a small outlay they utilise these institutions and get large funds which they use for their own personal purposes.

9012. With regard to the position in Canada, for example, no foreign bank is allowed to operate. Foreign banks must register themselves under the Canadian law and then they become members of the Bankers' Association and later get the licence from the Minister after becoming a Canadian bank in every respect. In your term of licence which you have mentioned do I take it that the licence would involve the revelation of the affairs of the foreign banks in all their aspects. Would they be compelled under the licence to show what their position is?—They will have to reveal what their business in India is on the same lines as other Indian banks.

9013. They will have to produce balance sheets just like Indian joint stock banks. Is that your idea?—Just like the insurance companies which show their business in India, these foreign banks also will have to show their assets and liabilities in India and I take it a similar step is not impracticable.

9014. The composition of the balance sheet of a foreign bank at present showing the entire position of the bank all over the world does not give any guarantee to anybody. It is a difficult position. When, even according to you, depositors in India find it difficult to understand an ordinary balance sheet, do you mean to say they will be able to make head or tail from these composite balance sheets?—Balance sheets of foreign companies give the particulars as required by the laws of their countries.

9015. Balance sheets of the foreign banks are shown as a composite statement and we do not know their advances in India?—We do not know.

9016. Is that not an unsatisfactory position?—I said just as the insurance business is showing their Indian business separately, it should be possible for exchange banks to do likewise.

9017. If a bank was registered in India under the Indian law, with Indian rupee capital and Indian directors and showing balance sheets just as any other Indian joint stock bank does, is there any inherent difficulty for these banks to operate as exchange banks in this country?—There is no prohibition from their doing so at present.

9018. Therefore if one of the exchange banks wanted to register itself in rupee capital, it can do so and still carry on its business in the same way as it does to-day?—When they start a separate show in India, they cannot command the same confidence in the London money market with regard to rediscount facilities and other things.

9019. **They would have the same experience in the business?**—It is quite so but whether they will have the same credit in the London money market is the point.

9020. There is nothing inherently wrong?—It is a question which has got to be considered very carefully before a proposal like that is recommended.

9021. **With regard** to the silly depositors who give a bounty to foreign banks by going there and depositing their money to the prejudice of Indian institutions which have to work in competition I take it that if something could be done by which these people may be prevented from giving a bounty to a foreign institution you will approve of it?—If the Indian banks can show that they enjoy some confidence from Government, it should enable them to draw their own deposits rather than by any restrictive legislation.

9022. You know the ruling rate on deposits which the foreign exchange banks give?—Yes.

9023. And you know the yield from Government securities?—Exchange banks are able to get money at 3¼ per cent. on their three months' deposits when the Government are willing to pay 4 per cent. on treasury bills. There is a class of depositor who has been used to put money with these banks and even the offer of treasury bills does not attract him.

9024. You know the deposits in the foreign banks are not only quite sufficient for their foreign business but also enable them to do internal business?—They certainly do internal business but to say that their deposits in India are sufficient for their business would not be correct throughout the year. In certain periods of the year they are overdrawn on London. During the slack season they remit their funds back to London and in that period whatever spare funds they may have they utilise in purchasing treasury bills and so on.

9025. I read a quotation from your Banking Number in which the Chairman (Mr. Beaumount-Pease) of the Lloyds Bank addressing the members of his bank at its annual general meeting is reported to have said that it is not the practice for foreign banks working in India to draw on the London money market. His actual words were "The total of deposits received in that country (India) largely exceeds the amount of our advances and no portion of our deposits at home is used for the purpose of making loans in India". Then how do you substantiate your statement that these banks used to draw on England sometimes in the year?—That is why we have summed up the article in the following words "It is hardly possible to generalise one way or the other; and all that can be said is that if the Chairman of the Lloyds Bank knew that what he stated for consumption at home would be used for propaganda abroad, he would have put in qualifications and modifications to his statement".

9026. A statement made by an important member of these foreign exchange banks cannot be incorrect. Probably he might have been unwise in letting the cat out of the bag?—How can you make any statement about an exchange bank which can be said to be the same all the year round.

9027. They are giving certain rates to the depositor at present which are actually under the yield of Government securities and they are still able to attract a certain portion of the business. If they give 1 per cent.

more than they do at present for their deposits would they not be able to attract more deposits? Whenever a banker thinks he could draw more money, there is nothing to prevent him at present from paying more for his deposits?—If the deposit rates are increased the confidence of the depositing public in that bank will also decrease. At present the public have more confidence in such banks because they feel that in spite of the fact that they offer lower rates than even the Government do, still they are able to attract large deposits and so the bank must be quite sound.

9028. Exchange banks are now in the habit of giving low rates and are attracting certain volume. At higher rates they can attract larger volume?—It may be possible.

9029. In fact it has been suggested that bankers can encourage thrift by giving higher rates. There is nothing to prevent them attacking the field of banking still further and more intensively by offering higher rates of interest and taking more deposits. There is an open door at present?—I agree.

9030. *Chairman*: If the exchange banks increased their deposit rates, your view is that instead of their deposits being increased there is the possibility of their deposits falling off?—That is my point.

9031. *Mr. Manu Subedar*: You would thus imply that if the Indian joint stock banks quoted half per cent. less than they do at present, their deposits would increase?—Banks which are very particular to adhere to their rates get money easier.

9032. It is absolutely an open door at present. Is that position satisfactory?—As I have said, there are historical factors which have to be borne in mind.

9033. Would you leave the position in regard to the foreign banks working in this country exactly as it is to-day? Do you think it is satisfactory or unsatisfactory? I want to put it to you from the point of view of the safety of Indian deposits. You know there are 17 foreign exchange banks working in this country now and there is nothing to prevent further invasion, for example, a bank from Moscow might put up its board here to-morrow. Would you allow this danger and absolute freedom for foreign banks to jump in as and when they please to continue?—The licensing authority would exercise judgment in this matter.

9034. It is only on matters of some little detail that I am asking you?—Having regard to these factors they will properly judge on the respective merits of the applications.

9035. What would be your objection to restricting at least partially the operations of these foreign banks?—What do you mean by partial restriction?

9036. *Mr. Manu Subedar*: What would be your objection to the prohibition—partial or complete—against deposits going into foreign banks?—I do not think it is feasible. Total prohibition would mean that they will not take deposits in this country but that they will derive their working capital from the country of origin.

9037. If they want Indian deposits, let them register themselves here; if they do not want Indian deposits, they are perfectly at liberty to bring money from elsewhere. Do you think that the restriction ought to come in gradually?—I would like to refer you to the system in America which is

perhaps the only system under which foreign banks have restrictions of the kind you mention.

9038. But there, as you perhaps know, the foreign banks can open branches but cannot accept American deposits; while in other countries foreign banks cannot open branches; and I consider that the deposit restriction is a mild restriction. Would you be opposed in principle to this restriction?—Is it or is it not right for India to conserve her capital for her own institutions and through her institutions for her own trade and industry?—I do not think a restriction like that will be feasible or even advisable.

9039. You would be opposed in principle to this restriction?—Not in principle but in practice. Do you not think the importance of the Indian money market has increased by the presence of these foreign banks in India? I think a free money market like that should be a more dignified thing.

9040. Do you think that the 75 crores of Indian deposits with these foreign banks is a matter which compensates us for the presence of these foreign banks?—You could get a good portion of that 75 crores for our own Indian banks.

9041. I do not want that money should go to Indian banks; I mean that Indians should not put their money into the exchange banks?—It is rather difficult for me to reconcile myself to the kind of restriction you have suggested, not even partial restriction.

9042. Are you prepared to follow what you yourself have described as the American practice regarding restrictions?—That is not true of every country.

9043. Would you leave the door open?—I would not leave the door open hereafter.

9044. What about the deposits?—So far as the deposits are concerned, I would leave it to the sense of patriotism of my countrymen and the confidence which our Indian banks are able to inspire in the public.

9045. If a few of these foreign exchange banks resolved to run their institutions on Indian lines?—I would certainly recommend them.

9046. Would you give them preference over others which are not registered?—What kind of preference?

9047. In respect of the right of taking deposits in this country?—This assumes that the other institutions ought to be denied this concession. Giving them additional facilities means restricting the facilities of the other banks; and as I have said, I am not in favour of restrictions.

9048. *Mr. Buckley*: I understood Mr. Manu Subedar to say that there was nothing to prevent exchange banks offering higher rates for deposits and that would make competition more deadly. I put it to you that if the exchange banks offered higher rates for deposits, they would thereby have to raise their lending rates, and this would make competition less deadly, if the Indian joint stock bank's rates remained unaltered?—Do you refer to that portion of the business of exchange banks which pertains to internal business?

9049. No, I mean their lending rates for overdrafts and cash credits, in fact those classes of business in which commercial banks are also interested?—That is, what you will be gaining in deposits you will be losing in

advances. But the deposits will be drained; and your competition in regard to advances will be less and your competition in regard to deposits will be there.

9050. I do not see how it would be more deadly?—One thing is certain that exchange banks will be able to draw more funds.

9051. *Sir Purshotamdas Thakurdas*: You discussed in full the question of Government securities and their valuation in the balance sheets of banks. You said that banks generally hold Government securities till the period of redemption where the period is a reasonable one, say, 20 years. I suppose you will agree that the institutions which are interested in insurance naturally hold these Government securities more surely till the full period of redemption than the banks do. Therefore would you recommend the same thing with regard to their balance sheets—not valuing Government securities at the market value but only allowing a depreciation of 1½ per cent.?—I would.

9052. Do you think an Actuary will pass a balance sheet of that nature? —An Actuary is interested in the difference between the assumed rates of interest and the actual rates of interest which is more valuable from his point of view than the market value of the Government securities. In order to arrive at a profit which is to be distributed among the policy holders, the market value of the Government securities does not count with the Actuary.

9053. You said you would like this Committee to collect statistics regarding gold and you felt that this Committee might usefully do that. You indicated to us the quarters where such statistics could be collected; you named certain Indian States and certain provinces. I must say it is a very useful suggestion. I want to know what method you would employ in order to get at these statistics. Obviously you would write to these States and they would not reply. Regarding the Punjab and Bombay, which you named, can you indicate the lines on which we should proceed?—You know a good deal of gold goes by post and in people's trunks. Is it not?—Yes.

9054. Do you think there is any feasible method by which you could assess the quantity of gold in this country? Is there any machinery which this Committee could employ with the most patient labour? Let me put it to you that it is impossible?—The only possible method I can suggest is to assess the imports of gold into India.

9055. But, Mr. Rangaswamy, you know that that will not help you to arrive at a correct estimate of all the gold available in the country. To my mind what you expressed in the course of the discussion is merely a pious wish and that there is no feasible method by which this can be done. If it were possible, this Committee could employ ten officers for the purpose. But as I say, it is impossible. Do you agree?—I understand the difficulty of the task. After all what I said was a mere suggestion for consideration by this Committee.

9056. I say there is no feasible method by which this can be done unless you take a regular and detailed census of it and you open people's trunks, and these are methods which you do not favour. It has been suggested to me by the community of Indian *shroffs* that unless Government took steps to do what is called *Zabardasti*, it could not be done?—Yes, I realise the difficulty.

9057. *Dr. Hyder*: As a matter of fact I myself have felt great difficulty in estimating the total amount of gold in a province because of the different ways in which gold is treasured. It is hoarded in the form of ornaments, sovereign, etc. It might be possible to come to some sort of rough guess by the indication that might be given by reports to the police. But surely that will not give us the total quantities of gold in the country?—After all, these things have to be estimtaed by the method of sampling.

9058. After all, his indebtedness has got to be removed and you will have to find out what is the indebtedness, and it is a surmise or a guess. But we would come nearer the truth by making our guesses a little more exact. That is the only basis of approach. It occurs to me that short of *Zabardast* the only method I can think of is that we might get some clue from the reports of thefts.

9059. *Sir Purshotamdas Thakurdas*: Jewellery does not include merely gold, it is gold and precious stones. What I was thinking of was that you being a statistician you would want something to rely upon and all these are mere efforts at guess?—I do not think we can get really anything like reliable statistics on gold; it should be mostly impression and guess work.

9060. You know that so much gold was imported and so much exported; barring what was exported across the borders which evade the customs, you can have a record of the rest. Can you get at anything else?—Of that a good portion has gone in the form of ornaments.

9061. We will deal with ornaments; that is gold in the country anyway?—Yes.

9062. Regarding your gold certificate system which is a constructive scheme, and you have put it very modestly, I want to understand a little more. You said that people should be told that if they came and gave gold, Government would give them a certificate carrying interest at any rate varying from 4 to 5 per cent., that it would be a five years' gold certificate, that if they wanted it at the end of 6 months, the rate of interest would be so and so and so on. I wish to know whether Government should give a stated quantity of gold at the end of 5 years or gold worth so many rupees. Suppose the gold rate to-day is somewhere about Rs. 21-8-0 a tola and I come and deposit 100 tolas of gold, which is worth Rs. 2,150. You give me a gold certificate for that amount. At the end of 5 years, would I get 100 tolas of gold or would I get Rs. 2,150 worth of gold?—You will get 100 tolas of gold.

9063. Irrespective of what the price of gold was? It may be Rs. 19 or Rs. 25. Would you give the man who gave you 100 tolas of gold a certificate to this effect "Received from so and so 100 tolas of gold to be redeemed at the end of 5 years in 100 tolas of gold, in the meantime carrying interest at 4½ per cent. on Rs. 2,150?"—Is that correct—Yes.

9064. *Dr. Hyder*: The interest might also be in gold?—It would be paid in rupees.

9065. The suggestion in one of the Provincial Committee's reports was that the depositor was to have the choice of being repaid either in cash or in gold *plus* interest in gold.

9066. *Sir Purshotamdas Thakurdas*: According to the witnesses' scheme the interest is to be paid in rupees according to the quantity of the gold and the gold is to be returned during the period at any time asked for?—Yes.

9067. How would this gold be useful to Government?—Government need not sit on the bar gold as it can be removed to Calcutta, Bombay or London and may be returned. But ornaments proper have to be retained at the particular place where they are deposited. The Chairman gave you the instance of Amritsar; the ornaments will have to be there for five years, is that not so?—Yes.

9068. Barring the privilege of paying interest on them at, say, 4½ per cent. or at such percentage as the various parties permit when the ornaments are withdrawn, what advantage does the State get?—They make it the basis of currency.

9069. Therefore, your point is that if at Amritsar one lakh tolas of gold ornaments were deposited Government would issue against it one lakh tolas gold certificate to the lenders?—Yes.

9070. On that Government would issue currency to the extent of whatever ratio is fixed thereon?—Yes.

9071. Suppose, say, during the month of *falgoon* when a number of marriages usually take place, 50,000 tolas of gold were asked for out of these deposits, Government have got to deflate at once a proportionate amount of currency and it may coincide with the season months. Do you see any objection to it?—I looked at it from the point of view of banks, there are withdrawals and deposits and at the same time a certain level of current accounts is maintained. In regard to these gold deposits also there would be comings in and goings out and a certain level will have to be maintained, so that there may not be that amount of disturbance which you anticipate.

9072. After 4 or 5 years' experience you will come to know the quantity of stable ornaments that will remain with you and to that extent you will have to provide additional reserves in the Reserve Bank. You have got to deflate, whatever the percentage, thrice as much or 2½ times as much?—After all we are not going to issue currency to the full extent permissible by law. It may fluctuate, so that in the contraction we can adjust ourselves from time to time. If I have given myself a good margin at the time of expansion, fluctuations of that kind could be eliminated.

9073. In fact it would be correct then to say that inflation of currency against gold ornaments may be on a more conservative basis than inflation of currency against bar gold, because gold ornaments cannot be transferred and you will have to do it to a smaller extent?—On the whole most Central banks do keep a kind of much higher reserves of gold than what is actually prescribed by law.

9074. Bar gold?—Take to-day for example sovereigns in England. The Bank of England is giving only standard fineness and that gold is not tenderable to the Bank of France or the Bank of Belgium or the Switzerland Central Bank, with the result that the men who buy that gold have to refine it in the London market and then tender it.

9075. The only difference is that ornaments have to be earmarked?—No, the turn for the ornaments will come after our other gold resources have been exhausted.

9076. No, that is why I mentioned that the turn would come just when you are in the most normal period, *i.e.*, a heavy marriage season. In a certain province you know what it is like when in a month or two months you get hundreds of marriages. I shall give you a serious aspect of it.

Suppose there is a crisis, a War or something across the border, something which may obsess the people and make them feel that they had best take their belongings and keep them under their own houses. Would this not be a serious handicap?—I know it is a contingency which the State has got to take cognisance of.—Can you tell me what your view is?—In a crisis, there should also be a moratorium or some kind of liberty with the person. If it is a very serious crisis, it would certainly be justifiable.

9077. Suppose you have a crore of tolas of gold and 21 crores of rupees outstanding. Your inflation of currency may be 42 against it. What would happen if a crisis occurred, say like the Great War of 1914?—We would lighten our reserve restrictions and make it more liberal. After all this gold certificate scheme is more of an educative nature and you cannot utilise it for acquiring currency for the industrial system of the country. Its main value lies in its capacity to train people in the habit of investment.

9078. I am very glad you mentioned that. If you have put this scheme forward with the idea of accustoming people to part with their gold and give it to the State, hoping that in 10, 20 or 30 years' time the people of India would give up the hoarding habit, you would like it to be tried only on a restricted scale and not on such a scale as may affect the currency of the country in a crisis?—As a matter of fact, it is more an experiment to find out the possibilities of self-help. Till that experiment has reached a stage when we can depend upon it and till Government know how much they themselves can depend on it, the steps taken in regard to its inclusion in our currency reserves should be very cautious.

9079. You would like the experiment to be made on a very modest scale?—In the beginning we have to find out whether we can be self-reliant in regard to gold supplies. As you know from Mr. Benjamin Strong's evidence before the Currency Commission, the chances of India getting gold from outside countries are very poor and a gold standard is, in my opinion, a most urgent necessity. In other words, we have to find out whether this experiment in self-help can stand by us and if it is successful, it is worth the expense that might be incurred on it. If it is unsuccessful, then we can find out how we are going to tap the world's market.

Mr. Lamond: It seems to me that if gold is got for the Currency Department and a gold certificate is given, the Currency Department can permit the use of that gold for five years.

Sir Purshotamdas Thakurdas: If you take, say, 20 tolas of gold to the Currency Department, they would give you a receipt for that gold to be returned on demand with interest accruing. You can demand the return of the gold in 3 months, 6 months or 9 months or any period up to 5 years, they will return to you the gold *plus* the interest accrued.

Mr. Lamond: Government carries an obligation to cash the certificate.

Chairman: It is a form of security.

Sir Purshotamdas Thakurdas: The gold is returned: there is only the interest outstanding.

9080. *Chairman*: The scheme is to be confined only to gold ornaments and not to jewellery and you are contemplating a limited experiment at certain centres for certain classes of people. There may not be much gold forthcoming in that case, because among most classes jewellery is

more in vogue than gold ornaments?—That is so. As a matter of fact, gold and precious stones are mixed.

9081. *Sir Purshotamdas Thakurdas*: Those ornaments would not be acceptable?—No.

9082. When gold ornaments are brought to the treasury in accordance with such a scheme, they have to be tested for their fineness. The ornaments have always some alloy and at times they have also foreign materials inside. You would perhaps restrict the scheme to gold ornaments of a certain make only, not accept every gold ornament tendered?—For example, not gilt.

9083. I know some middle classes have gold ornaments which are hollow, stuffed with lac inside. You cut that out and accept only gold ornaments of a standard type which can be tested and weighed for fineness. Therefore there would have to be an expert staff to do this work?—Yes.

9084. There are for example what you call choksies in the bazar in Bombay, they merely rub the gold ornaments against a stone and say it has 97 touch or 100 touch; they do it very well and as a matter of fact all gold ornaments are tested and paid off in this way. I suppose it would not be good enough for a Government Department?—It would have to be more scientific.

9085. If you want to have it on a fairly large scale, you would have to have an expert staff. Have you considered this point of view?—The difficulty of assaying and fixing the exact price is very great. Whether a sufficient number of experts would be available and whether it would be worth while to engage them in many different centres are very difficult points to be decided.

9086. *Choudhri Mukhtar Singh*: Is there not a gold testing machine? I suppose it is not a very costly machine?—My proposal is to appoint an expert, say for four districts; so that he can travel about and do the work one day a week at each place.

9087. There would be difficulty in that?—There are various difficulties.

9088. *Sir Purshotamdas Thakurdas*: Regarding Indians taking to exchange business, do I understand you correctly to say that you do not look upon the question of staff capable of dealing in exchange business as a dominating difficulty?—No.

9089. It is one of the difficulties, but it could be got over, as you yourself said the Tata Industrial Bank carried on?—Yes.

9090. It has been put to us in the course of evidence by various Indian commercial banks that the whole difficulty of Indian banks taking to commercial business is not the question of staff, nor the question of patriotism of the people in going to banks of their own nationality, but the question of having a fair field for the operation of such banks. Do you agree with it?—When you say that they have the clients coming to them, what do you mean by saying that there is no fair field?

9091. I can give you the instance of the Tata Industrial Bank of which I was a director at that time. When they started exchange business, they did very well and they were able to get a good many bills here. When the bills were paid at the other end, the money had to be remitted to India; they could not get import bills here to the same extent and therefore had to fall back on the Councils. They were not on the list of the Secretary of State. They tried to tender, but were told that they

could not, not being on the approved list. So far as I can remember it took them the best part of 2 or 3 years to get on to the approved list. These are the difficulties which face Indian enterprises in exchange business?—I agree.

9092. On page 25 of the Special Banking Enquiry Number you have summarised in the last paragraph the burden of what we have been listening to on this Committee from the Indian commercial community. You say:—

> "It is pointed out that exchange banks established in other countries attract only a small proportion of the total deposits of those countries and depend for their working finance largely on their head offices in the country of incorporation. At the same time, the question is asked, with increasing insistence for an answer, as to why, whereas the foreign trade of Indian bears only a small proportion to the huge volume of internal trade, foreign banks enjoy a disproportionate share of available deposits. There is a widespread feeling that in any future scheme of reorganisation of the Indian banking system, it is essential to secure full participation of the domestic banks in the financing of foreign trade .....".

and you end up by indicating that these exchange banks should train more Indian staff. Do you think that is the only solution of the problem?—You have put forward the same grievance as the Indian commercial community do, but the solution which you indicate is not the dominating difficulty?—I have concluded with an appeal in this sentence: "How Lord Irwin solves the coastal shipping problem may well be a lesson and a lode-star, by whose light the problems of foreign exchange banks and foreign insurance companies could also find a solution," and to you I have to repeat, how this Committee will solve this question should be a lesson to similar questions that are bound to arise.

9093. You have come here to advise us and to guide us and I am asking for your advice and guidance in this matter. An uncharitable critic very much interested in shipping would only comment upon that sentence as a pious wish which carried the shipping interests in India nowhere. I should like your advice and guidance as to what you would do more than extending a mere pious wish as that uncharitable critic said. Have you some indication from your friendly relations with exchange banks that they are prepared to realise the gravity of the situation as it is reflected in the paragraph quoted above?—They are realising it.

9094. I hope that you will then work up something as you worked up the other thing?—I should think that exchange banks are realising that a changed outlook is necessary.

9095. We may expect to hear from you to indicate the way by which you can help the progress towards better understanding and towards something concrete?—I should certainly like to discuss this with more of the exchange banks.

9096. At the moment I will leave it at that. Your solution of the difficulty is.....—An anti-climax.

9097. In your written memorandum you say "The right to take deposits has everywhere been withheld from foreign banks; and if we desist from

that course, is it not the least that the exchange banks can do to undertake to staff their offices with Indians up to an agreed percentage?" What would you look upon a satisfactory percentage to which the exchange banks may agree?—50-50.

9098. To be worked up to in how many years?—Much quicker than the Imperial Bank is working up its scheme.

9099. The Imperial Bank is not to be put up as an ideal to work up to at all. You can criticise it as much as you like. We are talking at the moment of exchange banks?—In ten years' time.

9100. Do you refer to clerks when you say superior staff?—I mean people of the officers' grade.

9101. It has been pointed out by witnesses before this Committee that the import and export business of this country is carried on in currency other than that of this country which prevents this country from having a big discount market as it should have?—I agree.

9102. A suggestion has been made to us that the import business of this country should be introduced in rupee currency. Do you agree?—Yes, I myself have made suggestions like that.

9103. And do you think you can interest the exchange banks by inducing them to do so?—I do not see any reason why in the case of India alone there should be an exception.

9104. Therefore you agree that it is better to have the rupee bills in the case of the import trade of this country?—Yes.

9105. You also agree with the view of this witness that the Government should give the lead by buying stores in rupee and not in sterling and that is a matter in which the Government can give an impetus to banking autonomy?—Yes.

9106. *Dr. Hyder*: I wonder if you are aware that other countries, particularly Germany and America tried to have mark and dollar bills and they came across this difficulty, that unless they had some special factors they could not compete with sterling bills. The factors were that the country must have, (1) a large foreign trade, (2) it must have shipping companies, (3) it must have foreign investments, (4) it must have a stable system of currency, (5) it must have peace, and (6) it must have exchange banks operating in the country as well as outside. These are the desiderata which were considered absolutely necessary in order that the Americans might have dollar bills or the Germans might have mark bills. Do you think in view of these factors whether we can straightaway adopt rupee bills?—It will be a matter of growth. You cannot create it by a magic wand, but the suggestion is that it should receive a fairly good impetus by Government buying imported stores through the High Commissioner of India at London in rupee currency. Except that we have no control over the exchange banks and shipping companies, we have practically control over everything else. My view is that conditions to-day are not unpropitious for a beginning to be made.

9107. Do you think the High Commissioner asking for tenders on behalf of the Government of India would be able to persuade the sellers to accept rupee bills?—I think so. It would not be difficult for the buyer to dictate terms in these days of competition. This fact of the existence of competition in itself shows that the present is the period most opportune to bring in rupee bills. The buyer is in a stronger position to-day.

9108. *Sir Purshotamdas Thakurdas*: Dr. Hyder mentioned one item in his list which is rather pertinent to the discussion before us. He mentioned that the country should have its own exchange banks both in this country and abroad. Does it not strike you as landing us in a vicious circle, and do you not think that it is as a solution of that difficulty that you should import at this juncture in rupee currency?—Yes.

9109. You say that "For a long period of years, exchange banks have had a practical monopoly of deposit banking in India; and aided by the cheap money they could command in England, they were able to make large profits and build up the large reserves that have given them their present impregnable position." At present they have a practical monopoly of foreign exchange business. I take it that you are in agreement with those witnesses of the Indian commercial community who have appeared before this Committee and asked us to prevent the exchange banks from continuing their present impregnable position. They say, do not allow these exchange banks to strengthen their present position any further, and try and see that the Indian national gets his due share in a manner which is legitimate and reasonable, as practised in other countries of the world. Would you call that a justifiable ambition and if so, would you subscribe to that view?—Yes.

9110. I know that you have taken a great interest in the banking enquiry. In your statement you have told us that at the commencement of the enquiry you thought the method employed was cumbrous and unwieldy and you have summarised your criticism and you have ended it up with good-will towards the Committee inspite of all the defects you found in it then. I take it you have seen the provincial committees' reports and I wonder whether you have had time to go through them. Do you think they have supplied this Committee and the public with material worthy of being considered?—It has been put to me by several persons that never before was an enquiry held in such a comprehensive manner giving the particular individuals on the spot opportunity to put forward their diagnosis of the case.

9111. Do you think that is a fair summary?—I entirely agree that it is the regional way of conducting the enquiry.

9112. You do feel that it has not been a waste of time and State money?—Yes.

9113. Now, I wonder whether you have any other channels in which we should extend our activities which you would like to indicate before you leave us to-night. Is there any suggestion which you would like to make to us to enable this problem to embrace all points of view?—If I may say so, the problem which the Banking Committee would now be crystallising before them would be of two kinds, (1) in regard to the higher finance involved in the banking problem, and (2) in regard to the lowest strata of the problem, the provision of banking amenities to the poor agriculturists and the masses generally. In regard to the higher finance involved in the banking problem, I dare say the experts who would be arriving on the scene from abroad would be a great assistance. Now, in regard to the other problem, if possible in the final stages of your deliberations in regard to the settling of the conclusions as arising out of the various provincial reports, I think if you would ask the chairmen and secretaries of those committees to be with you it would help in co-ordinating the results better. Speaking generally, there have been several antagonistic points put forward

in different reports about the co-operative movement. There may be many conflicts of opinion in other directions as well. If, therefore, you could get together all the chairmen and the secretaries of the various provincial committees, or other members of the provincial committees who have perhaps taken the keenest interest, if they could co-operate with you in your deliberations before laying down your final conclusions it would be helpful.

9114. *Chairman*: I should like to know what advantage you think we shall get by this consultation. Supposing the Punjab Committee held a particular view in regard to this matter of co-operative finance and Burma held a different view and Madras held a third view, do you think by getting the chairmen of these three committees together, we should be able to get a view which all the three will accept?—Will not the matter be different with reference to local conditions in the different provinces?—Agreement amongst them is not essential for the purpose of our enquiry. When you develop a scheme for India, take land mortgage banks, or industrial banks, you may decide there should be a kind of Central Board. These regional banks may not correspond to various provinces, but might be governed by other considerations. In regard to arriving at those things, it might be useful in bringing them together.

9115. Dealing first with land mortgage banks and industrial banks, you are aware that matters are mixed up with constitutional questions?—In what sense?

9116. There are already land mortgage banks in certain provinces and they are now under the control of the provincial Governments. If you wanted to have regional banks, we cannot pursue that idea. The regional banks must come under the control of the Central Government. None of the provincial committees have recommended in regard to land mortgage banks, regional banks. If this Committee on examination of the provincial reports came to the conclusion that there are certain matters which might usefully be discussed with the chairmen and secretaries of the various provincial committees, it might be desirable for them to do so. Is that your view?—Yes.

THIRTIETH DAY.

Monday, the 13th October 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. F. V. RUSHFORTH.	Mr. V. RAMDAS PANTULU.
Mr. MANU SUBEDAR.	Mr. R. W. BUCKLEY.
Sir HUGH COCKE, KT.	Mr. G. K. DEVADHAR, C.I.E.
Dr. L. K. HYDER.	Choudhri MUKHTAR SINGH.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

When the Committee re-assembled this morning, **Rai Promatha Nath Mullick Bahadur,** 129 Cornwallis Street, Calcutta, was examined.

9117. *Chairman*: Will you kindly tell us a little about your experience in the field of banking?—In what way?

9118. As to how you are interested in this matter of banking?—I am a director on the Agency of the Mercantile Bank of India Ltd., at Calcutta. I was doing some private banking business of my own some 25 years ago. I am a constituent of several banks including the Imperial Bank of India, the National Bank of India Ltd., the Lloyds Banks Ltd., the Hongkong and Shanghai Banking Corporation, etc.

9119. *Mr. Buckley*: I am not aware of any such local directorate of the Mercantile Bank of India as you have mentioned. Will you please let us know what it is—Mr. Hodson is one of the directors, Mr. Cromartie is another and I am also there. This directorate has been in existence for the last two years.

9120. *Mr. Rushforth*: Could you tell us what is the function of that directorate?—I am not in a position to disclose the activities of the directorate.

9120*a*. *Mr. Buckley*: I suppose it is doing more or less trustee business?—Yes.

9121. *Chairman*: You say that officers or heads of banks are often shareholders and can easily secure proxies for their nominees from shareholders who have to seek their help when they want to take loans from the bank. You, therefore, suggest that these officers should not have any voice in the appointment of auditors. Do you suggest that they should not secure proxies for the appointment of auditors or do you merely suggest that these officers should not exercise their votes as shareholders?—My answer to that is that the management seeks sometimes to choke off legitimate criticism of the affairs of the bank by using their influence over customers and clients who have dealings with it. This is undesirable and can be, to some extent, checked, if they were prohibited from collecting proxies in their own name or from canvassing for proxies. It is for this purpose that the names of the proxies are not disclosed in the annual general meetings of

the bank as was done before. I have, however, no objection to the exercise of their personal right as shareholders for voting generally. This is the way in which the banks used formerly to publish the names of the people present and the votes by proxy, but now they have discontinued this practice. (Witness at this stage handed over to the Chairman a printed copy of the proceedings of a meeting showing the procedure followed by banks formerly in the matter of publishing the names of proxies etc.)

9123. That is what the old Bank of Bengal used to do?—Yes; the Imperial Bank does not do so now.

9124. *Mr. Manu Subedar*: You say the Imperial Bank did not publish the proxy list at its first annual meeting?—No, they did not do so at the first general meeting after the amalgamation.

9125. *Chairman*: Did not the shareholders object to that?—I did object on behalf of some of the shareholders.

9126. Did the majority of the shareholders oppose this arrangement?—The bank only says that so many shareholders are present without disclosing the names. The majority of the shareholders are absentee shareholders mostly on the continent and elsewhere. I have, however, no precise information as to where these absentee shareholders are, but I was told that the majority of the shareholders are absentee shareholders.

9127. You suggest that auditors should be changed annually. It has been urged on the other hand that if auditors are changed so frequently, they will be unacquainted with the standing etc., of the clients of the bank and the audit would not be efficient. Do you think there is any force in this argument?—The point which I wanted to emphasise was as mentioned in my supplementary statements that firms well-known as auditors should be appointed and not individuals from the different firms and that there should be some changes at least once in two or three years. I do not consider that the efficiency of audit would suffer by such a change, if the selection be proper.

9128. Then to that extent you modify your answer in the written memorandum?—Yes.

9129. You say that ordinary joint stock banks should not have restrictions imposed on their business but that big joint stock banks should have some restrictions placed on their business. Would you kindly explain how you would classify joint stock banks into ordinary and big?—The distinction I have in mind is between joint stock banks registered under Indian law and foreign banks operating in this country from their headquarters abroad, generally those banks have large capitals and it is not desirable that they should work in India without any restrictions as before.

9130. Here again do you wish to modify your written memorandum?—Yes, I do modify my answers a little after the personal enquiries that I have made in Bombay and elsewhere on this subject.

9131. You suggest that the grant of loans should not be left to the absolute discretion of the directorate and officers of the Imperial Bank without any responsibility and that a special credit board should be appointed to decide these questions. In the first place, am I correct in assuming that this proposal is made in view of the fact that the Imperial Bank are bankers to Government and that you would not press for the proposal after a Reserve Bank is established?—The need for a credit board exists in every bank, I think the tragedies of the Alliance Bank of Simla and the Bengal

National Bank could have been avoided, if a competent and honest board had watched the credit and loan operations. In the case of the Imperial Bank of India the need is all the more imperative, so long as they are bankers to the Government of India and custodians of public deposits. I do not think the loss incurred by the Imperial Bank in respect to the Bengal National Bank would have taken place, if any efficient watch had been kept. It is because the existing board did not provide sufficient safeguards that I suggest the creation of a credit board. This credit board would function as the final authority without whose sanction loans above certain limits which they would fix could not be given or renewed, even if the board of directors recommended them.

9132. All that you have said is very interesting, but it is not an answer to my question. Will you please say whether you would press for your proposal even after a Reserve Bank is established in this country?—No, not after a Reserve Bank is established.

9133. *Chairman*: Would you kindly explain how you expect this special credit board to work better or to have greater responsibility than the existing central and local boards of the Imperial Bank?—The existing Central Board and the local boards have in their past dealings shown that proper watch was not exercised over the granting of loans to the Bengal National Bank, which loans were held by the High Court to be fiduciary loans; and it was for this reason that the High Court did not give a decree in favour of the Imperial Bank. If on the other hand the Central and the local boards had kept a proper watch over these transactions, the shareholders of the Imperial Bank would not have lost the money.

9134. Therefore, your point is that though these boards are in existence, the people on them are not, in your opinion, competent to discharge the responsibilities entrusted to them?—Yes, that is so.

9135. Would you kindly tell the Committee how you propose this special board to be constituted?

I suggest that the big depositors should be represented on the special board and also the big shareholders of the Imperial Bank, because in my opinion these people have greater stakes than the directors or the members of the local or Central Board.

9136. How would you get these men? Would you secure them by election?—Yes, by election.

9137. From among the shareholders and the depositors of the Bank?—Yes. There is no provision at present as regards the qualifications of the members of the Central Board. I would suggest that shareholders of the Bank holding about a lakh of rupees each and the depositors holding about 2 lakhs each should have the right of franchise.

9138. What are the present qualifications? Have you any idea?—Yes, they are laid down in the Act; I will read out, "No person shall be qualified to serve as Governor or as a member of a local Board who is not a holder in his own right of unencumbered shares of the bank, to the nominal amount of ten thousand rupees at the least: provided that this provision shall not apply in the case of a person who is an officer of the Bank or is nominated or appointed by the Governor General in Council."

The idea is that the man who is appointed by the Governor General in Council may not hold any shares of the Imperial Bank.

9139. So you raise the limit of ten thousand to a lakh of rupees?—Yes.

9140. How would you allow the big depositors to be represented?—The authorities will make a list of big depositors and out of that elect people at the annual general meeting.

9141. This means that all the depositors will then have the right to elect members to this special credit board?—Yes.

9142. Therefore the people who will sit on this special credit board will be elected both by the general shareholders and by the depositors?—Yes.

9143. And the one lakh limit will apply both to shareholders and to depositors?—One lakh in the case of shareholders but 2 lakhs in the case of depositors.

9144. You say that "the word 'bank' should be restricted to those joint stock registered companies who satisfy the legal definition of the word 'bank'". Would you kindly explain what definition you have in mind?—Only public limited companies should be entitled to use the word 'bank', provided they have not taken powers in their memorandum to engage in trading, in dealing in shares or moveable properties, and are not actually engaged in these operations. The watch in public interest in this direction should be kept by a central board working through a registrar of banks in each province.

9145. So, here, you modify substantially your statement already made in your memorandum?—Yes; I was not very clear when I wrote that.

9146. You say that local firms and branches of foreign companies which do not claim the legal concessions extended to banks strictly so called should not be brought within the restrictions of the provisions of the law relating to banks. Would you kindly explain what legal concessions you have in view?—Only banks registered in this country as public joint stock companies should be allowed to take deposits, be members of Bankers Clearing House and receive rediscounting facilities from the State Bank. These are the privileges which banks will enjoy in future in India and neither local trading firms nor branches of foreign companies should enjoy them.

9147. Here there are no legal concessions?—I made a mistake in putting in the word 'legal'; it is merely a technical error.

9148. *Mr. Manu Subedar*: You mean there is no law at present but that you expect that there will be one in future?—Yes.

9149. *Mr. Ramdas Pantulu*: You refer to the amendment of the Indian Companies Act?—Yes, that and also the Imperial Bank Act.

9150. *Chairman*: You point out that co-operative banks in this country are in their infancy and that their spheres of business should be protected from aggression by other classes of banks. Would you kindly explain how this could be done?—The Imperial Bank or other banks ought not to lend at cheaper rates to large trading firms in a manner calculated to weaken the efforts of co-operative sale societies wherever such bodies come to be established. And in this connection I would like you to refer to the written evidence submitted by the Poona Central Co-operative Bank on the point.

9151. When you talk of the sphere of business of co-operative banks being protected, you are evidently referring to the co-operative sale societies?—Yes, I mean both. The co-operative sale societies advance money to the producers to catch the market instead of being swamped by the trading agents of big firms who give loans to these producers.

9152. At what particular place do this class of people do business?—Everywhere.

9153. You say that to forestall the danger of directors of banks getting special facilities in obtaining loans for firms in which they are interested it should be provided that no director of a bank should be a director, member or partner or officer of any other firm, company or bank who have business dealings of this nature. Would you kindly favour the Committee with your views on two alternative suggestions which have been placed before us:—

(1) that a limit should be placed on the amounts that should be given to directors, and

(2) that such loans should be shown in the balance sheet of the banks and be brought prominently to the notice of their shareholders?—Many bad loans of banks are traceable to laxity on the part of Bank authorities on account of the influence of the bank directors who are also associated as directors or partners with the borrower. I therefore prefer strict rules which would preclude any firm or company in which a bank director is a partner or a director from borrowing from the bank. The safeguard indicated in the two alternatives referred to in your question will not be adequate.

9154. You say that the paid-up capital should be large and not a small fraction of the authorised capital. Would you kindly indicate what proportion of the authorised capital should in your opinion be paid up?—I object to the publication of a large figure as authorised capital as it misleads the ignorant members of the public. At least one-fourth of the authorised capital should be paid up, and at least one-half of the issued capital should be called up.

9155. You refer to want of sufficient cash to meet current liabilities. Would you lay down by law the cash reserve to be maintained by banks as a definite percentage of such liabilities?—The banking board should provide a regulation by which banking institutions under fifteen years' standing would be obliged to keep about 15 per cent. cash reserve either with themselves or with the bankers. It is desirable that the percentage of liquid resources should not be less than 33 per cent. but I would prefer this to be done intelligently by a regulation of the banking board rather than by statute. With regard to banks of longer standing than fifteen years the regulation may be less stringent.

9156. I do not recollect that in your memorandum you have recommended a banking board?—No.

9157. Then what is the banking board you are referring to?—The Board of the Reserve Bank you referred to.

9158. You say that the Registrar of Joint Stock Companies should be given power in the first place to make recommendations for the protection of banks against unjust attacks, by way of a preliminary enquiry, and that the final authority to grant such protection should be the court of trial of issues before it on full evidence produced before itself. Would you kindly explain what kind of protection this would give to banks?—Before an open enquiry takes place, which is likely to affect the credit of a bank, the Registrar of Joint Stock Companies or any other authority which may be hereafter instituted should be satisfied that there is a *prima facie* case. The

party who attacks the bank frivolously or out of malice should be liable to punishment, if the Registrar or the authority referred to, places the matter in the hands of the Public Prosecutor.

9159. You say that the heads of banks should be men of high European academic reputation and banking experience, of high social position and integrity, not to be carried by likes and dislikes, which is inevitable with those who have been in service in India for a long time. Is it your intention that heads of banks should be appointed from outside India or is it your intention that Indians selected for such office should combine European academic qualifications with banking experience?—What I had in mind was that it was very desirable that the manager of a bank should be selected for his probity, banking experience and right judgment. Such qualifications are more likely to be found in men who start life after high education and with the benefit of observations in foreign countries and banking.

9160. You say that Indians serving as probationers in the Imperial Bank have all been disappointed more or less as could be gathered from reliable information. The impression that the Committee has gathered is that this scheme of probationers has worked satisfactorily and that the banks have been able to appoint many as agents or accountants in charge of their up-country branches from these assistants. Would you kindly tell the Committee what reliable information you have to disprove this impression?—My reference was not to the few Indian probationers of the higher grade referred to in your question. But even they are also discontented having regard to their position compared with Europeans of the same standing in every respect. I was referring to Indian employees of the Bank and I have forwarded to you printed copies of the representations regarding employees' grievances which were freely ventilated in the Press.

9161. If banking service is to be Indianised, then Indians should be content to serve on lower rates of pay than Europeans; otherwise there is no advantage?—My complaint is that these recruits from England have no qualification except that they have worked for some time in certain banks in England; while these Indians with high University education and respectable family connections have to be content with inferior salaries; the difference in my opinion is purely of colour. An Indian as a second grade Assistant in the Imperial Bank starts with Rs. 300 while a European recruited in England gets a higher pay and in addition enjoys more favourable leave rules.

9162. That applies to every branch of Government service in which Indianisation is taking place. The rate of pay for the Indian is less than that for the European; the leave rules for the Indian are less favourable than those for the European. That, so far as I know, is deliberate. The idea is that when the Service is fully Indianised, the cost to the country will be less. You say that the bank employees are all disappointed more or less; it may be they are disappointed because they are not getting the same rates of pay or their leave rules are not so favourable as those of the European recruits. Is that your only point?—Yes.

9163. You say that the bank rate should be such as would not make it possible for the stock market ever to collapse like a house of cards. Would you explain your suggestion a little more fully?—A collapse on the stock exchange may be the result of many causes but a sudden restriction or withdrawal of credit is also sometimes the immediate cause. This could be obviated by a more conservative policy in lending on stock and

shares, so that larger margin may not be necessary with every fluctuation. It is unwise for a bank to encourage speculation and in their own interest they should not lend heavy sums at cheap rates to jobbers. They should not give call money to stock brokers.

9164. Can you give any case in which there was a collapse in the stock exchange market?—Yes, in the Bombay Stock Exchange market, there was a complete collapse.

9165. When did that happen?—Only two or three years ago.

9166. You say that provision should be made that particular banks of each class should be amalgamated with certain approved banks of the same class after a fixed number of years. Is not such amalgamation of banks subject to the approval of shareholders? Would you kindly explain how any legislative provision is feasible?—I did not want any compulsion in the matter of amalgamation which should take place with the approval of shareholders, but I consider it desirable that Government should encourage small and isolated banking institutions to amalgamate, so that they gain strength and work more economically in the best interests of the country to save themselves from foreign competition.

9167. In answer to question 12, Section V, enquiring whether you have any information regarding the general agency business done by banks in India for their constituents, you say "yes". Will you kindly mention in some detail the information you possess?—I know the banks collect bills, buy stocks and shares and arrange remittances for their constituents. Certain banks arrange the warehousing of goods as well as clearing of goods and forwarding the value of their clients. I understand the Imperial Bank allow their branches to act as agents for Insurance companies. I know also exchange banks would render all necessary service for a merchant in Delhi, Cawnpore, and elsewhere, in connection with imported goods, bringing them right up to his door.

9168. *Mr. Ramdas Pantulu*: In reply to the Chairman I thought you said that you would not press your proposal for a special credit board when a Reserve Bank was established. I understood you to say from an earlier answer that the proposal for such a board was not based upon the fact that the Imperial Bank was a Government bank but that you thought it would be necessary in the case of all big joint stock banks. The Imperial Bank being the biggest joint stock bank, do you not think that such a board would be all the more necessary? The Imperial Bank will certainly become bigger from a commercial point of view when the Reserve Bank is established, because restrictions now imposed on them to do commerical work would be withdrawn and the necessity for a credit board would become all the more greater?—My idea is that as soon as a Reserve Bank is established, the prestige of the Imperial Bank would be lowered and as the Imperial Bank has no knowledge of exchange business, it would be at a disadvantageous position compared to other exchange banks. If the Reserve Bank were to allow the Imperial Bank to be their agent in the *mofussil*, the Imperial Bank's business would, to a great extent, be less remunerative than it is at present.

9169. I thought the Reserve Bank was not going to finance industries, etc., direct?—The question of a Reserve Bank is not at all finally settled.

9170. Assuming that it is established, the Reserve Bank would only finance industries and the people in the country through the banks, and

the Imperial Bank, functioning as one of the biggest commercial banks, would still be there. Would you then press your proposal for a special credit board?—The Board, as it is, does not safeguard the interests of the shareholders in many ways. We know how in Madras, Bombay and Calcutta shareholders have to make good large sums of wrong payments from their profits. Then again there is this instance of the Bengal National Bank affairs. The banks say they would not finance industrial concerns on account of their liquid resources being held up for a longer period. But they do advance big sums like 30 or 40 lakhs to men like *Mr. Gaulstan* on landed properties. There is no restriction and no one has got to say anything about it.

9171. Do I understand you to mean that if a Reserve Bank were established, the Reserve Bank Board would take care to see that the banks financed by it functioned properly and that the Imperial Bank Board behaved better than they do now?—That has got to be seen; it is a prospective thing on which I cannot base any opinion. My view-point is that so long as the Reserve Bank is not established, a special credit board is necessary and imperative.

9172. You say: "Especially the co-operative banks in this country are in their infancy, and considering the very useful work they are doing to the tillers of the soil, bigger agriculturists, the manufacturers, middle class people and to all indigenous industries, their sphere of business should be protected from aggression by other classes of banks who help profiteers and monopolists." Would you kindly say whether any aggression is going on now and if so, in what form?—The Imperial Bank or other banks ought not to lend at cheaper rates to large trading firms in a manner calculated to weaken the efforts of co-operative sale societies wherever such bodies came to be established.

9173. In an area where a co-operative bank is operating, if moneylenders want to help agriculturists and go to the Imperial Bank, do you think the Imperial Bank should not lend money to them?—Yes.

9174. But do you think that co-operative banks are catering to the needs of all the agriculturists, or any large portion of the agriculturists, in any area?—Co-operative banks have not got so much money to meet all the demands of agriculturists and it would be better if the Imperial Bank were to lend money to co-operative banks and through them finance the agriculturists instead of the exchange banks taking up all the produce and deriving the benefit either themselves or through their constituents.

9175. Would your answer apply even if co-operative banks were not in need of funds and had their own funds?—After consultation with Mr. Apte of the Poona Co-operative Bank, I understand that there exists a competition between co-operative banks and the Imperial Bank. I find it in the written evidence before the Bombay Provincial Banking Enquiry Committee.

9176. Is the Imperial Bank feeling jealous of co-operative banks?—My point is that the exchange banks or the Imperial Bank should not be a competitor of the co-operative bank.

9177. But if other people whom the Imperial Bank finance go to agriculturists and would not lend them at lower rates of interest than co-operative banks do?—They lend at the bank rate to the middleman.

9178. I have not found any middleman who derives his resources from the Imperial Bank going to the villages and trying to lend to agriculturists whom the co-operative societies try to approach?—There are big jute firms who take out loans from the Imperial Bank at the bank rate and send out agents to villages. They buy the whole produce from the field and bring them to Calcutta and a firm of recognised brokers give a guarantee. On their guarantee the Imperial Bank advances money.

9179. Do co-operative banks do the same business?—No.

9180. Then how do you say they compete?—You may refer to the evidence given by the Poona Co-operative Credit Bank, Ltd.

9181. Have you any personal knowledge of competition between persons who derive their finance from the Imperial Bank and the Co-operative banks? In Madras people who obtain funds from the Imperial Bank have actually lent to agriculturists at rates higher than those charged by co-operative banks; still the agriculturists go to these people because the terms on which they get credit are much more informal.—I have no personal knowledge.

9182. You suggest that 'it should be provided that no director of a bank should be a director, member or partner or officer of any other firm, company or bank who have business dealings of this nature.' Do you not think this will shut out business talents from the board of such a bank?—There is not only one bank in India, but there are several banks. If a director of a certain concern is not a director of a bank, he can go to other banks and take loans.

9183. Are you also referring to firms and other business companies? As soon as anybody connected with a firm becomes a director of the Imperial Bank, is that firm to be shut out from all credit dealings with the Imperial Bank?—Yes.

9184. If he has been enjoying credit facilities from the Imperial Bank?—Let him not be a director of the Bank. You know what happened with the Alliance Bank.

9185. What happened with the Alliance Bank does not happen with a hundred other banks?—What happened with the Bengal National Bank? We have to judge things from our own experience.

9186. So far as Madras is concerned, both European and Indian firms have representatives on the Board of the Imperial Bank and if your rule is to be applied, they have to withdraw all their representatives?—I am not prejudiced by colour question especially at a time when we have hopes of our Government being remoulded on non-racial lines. My position is that no firm having credit dealings with a bank should have any voice in its management. I have placed my submission before the Committee and it is for them to decide what should be done.

9187. With regard to Indianization, I quite appreciate the national sentiment you express, but in India we have to substitute Indians in place of Europeans employed at present gradually. Do you think that Indians should be started on the same pay as Europeans and that as soon as a national constitution comes into force, their pay should be cut down, say, by half or one-third?—In Bengal they start on Rs. 18 a month; in Bombay on Rs. 40, 50 or 60. A stenographer typist starts on Rs. 100 or 150,

but lady-typists get Rs. 300. All these go to increase the cost of establishment of a bank. This differentiation in pay is the chief cause of discontent. The proceedings of the third annual anniversary meeting of the Imperial Bank of India (Indian Staff Association) for the session 1922-23 contain the following:—

> "*Revision of salaries of clerks.*—In view of the economic distress which is still tormenting clerks with all its fury, the Association approached the authorities last year for the introduction of the Bombay scale of pay in the Bengal circle of the bank. The memorial was replete with suitable materials and well founded on facts and figures, but no definite result has been achieved by us as yet. The local board of the bank has already expressed its views on the point and the Association proposes to make an analytic and critical study of the same as soon as the next opportunity presents itself."

9188. *Mr. Mukhtar Singh*: May I know whether you have any personal knowledge of co-operative sale societies, especially the jute sale societies in Bengal?—I have no personal knowledge.

9189. You said that there should not be any competition between the Imperial Bank and the co-operative sale societies and you gave us an instance of the jute merchants obtaining money at very low rates of interest from joint stock banks and distributing the same among the agriculturists. Do I understand from this that the agriculturists who obtain in this way money from the merchants are forced to sell their produce to the merchants alone at the price which they dictate to them?—Yes.

9190. The agriculturists cannot go to the sale societies and they are suffering. Is that the idea?—Yes.

9191. Is it the general custom in Bengal that cultivators of jute are given advances by merchants and the merchants give such advances in order to enable them to purchase the produce from the cultivators at rates that they dictate to them?—Yes.

9192. So the sale societies are working only as sale societies and they cannot purchase jute?—Yes.

9193. A sale society dealing in jute cannot be successful until and unless the sale society also works as a credit society?—Yes.

9194. The sale department and the credit department should be combined, otherwise the sale society would not be a success.—That is so, so far as Bengal is concerned.

9195. Suppose there are two probationers in a bank, one an Indian and the other a European, who started life together, one getting Rs. 300 and the other Rs. 500. If we have to Indianise, we have to give lower pay to Indians, so that ultimately the whole thing may be worked at a lesser cost. Is it only a question of less pay or is there anything disappointing to the Indian on account of the status that he holds in the bank?—If the bank wants to reduce its cost, I have no objection to the pay of Indians being kept at what it is at present. But at present the Imperial Bank is appointing more Europeans than Indians.

9196. That is not my point at all. Suppose the European, who is doing the same kind of work as the Indian, gets more pay than the Indian does. Is the European considered to be of a superior status or are both considered to be of the same level?—They are almost on the same level.

9197. If there is a question of promotion, will they get it irrespective of the fact that the one is drawing Rs. 300 and the other Rs. 500.—The promotion would go to the European.

9198. So as regards promotion, the Indian is at a disadvantage?—Yes.

9199. You consider that as regards grade promotion, the same rule should apply to both Indians and Europeans, that is whoever comes in grade must get the higher pay?—Yes.

9200. You suggest that persons connected with certain firms should not be appointed as Directors. You know that there may be good financiers connected with a number of banks and a number of firms. How would it be possible for them to cease their connection with their firms?—My idea is that if such men are in the directorate, there is a chance of their getting loans in preference to others.

9201. Suppose a man is connected with, say, ten different mills; if he becomes a director of a bank, he may not be able to get credit from it?—If he is connected with ten mills and if his position is sound, I do not think there would be any difficulty in his getting a loan from a bank without being one of its directors.

9202. But if those firms had dealings with that very bank, why should they go to another?—It is not desirable that the bank's money should be monopolised by heads of firms.

9203. It does not mean monopoly?—If the directors want a loan and if the public want a loan, will the bank give it to the public or to the directors?—Certainly, directors will get it in preference to public.

9204. *Mr. Devadhar*: You have proposed a special credit board and, in reply to the Chairman, you said you would like to have certain members represented on that Board, out of those who have purchased share capital as also deposits. I think you said that you would like to have shareholders having shares of the total value of one lakh to be represented on the Board and also depositors depositing 2 lakhs to be similarly represented. Does not the shareholder take a larger risk in the business than a depositor?—The shareholder and depositor are not in the same position. The shareholder gets a return for the money, but the depositor lends the money to the bank and the bank makes a profit out of it; so the depositor's position is in no way inferior to that of the shareholder.

9205. But who stands to lose more?—I think the depositor, because he gets no interest out of his money other than the usual bank rate.

9206. Does not the shareholder undertake the risk of losing his money?—He does in the same way as the depositor does stand to lose his. If the bank fails, the depositor loses the whole money.

9207. You refer to co-operative banks as institutions requiring some special protection. Is this demand being made by any co-operative institution?—Yes, I have heard it being made by the Poona Co-operative Bank, Ltd.

9208. Were you in correspondence with the Poona Central Co-operative Bank?—No, I only read it from their written evidence.

9209. What was their complaint?—Their complaint was that they advanced money to the producers at 9 per cent., while the Imperial Bank or other exchange banks advanced at the bank rate, which was less than 9 per cent.

9210. Therefore they wanted this protection?—Yes.

9211. In the same connection you have said in your memorandum: "Especially, the co-operative banks in this country are in their infancy, and considering the very useful work they are doing to the tillers of the soil, bigger agriculturists, the manufacturers, the middle class people and to all indigenous industries, their sphere of business should be protected from aggression by other classes of banks who help profiteers and monopolists." Would you tell us what business is left to other banks?—That is more than I can tell you.

9212. Except probably that business which would enable them to make a higher profit?—So far as I know, the maximum of the profit is made from exchange business.

9213. By 'co-operative bank' you mean a bank which is financing the agriculturists and providing funds for meeting their various needs?—Yes.

9214. You want the same kind of bank to do the financing for manufacturers?—Yes.

9215. Or do you want a different type of banks?—If advances are made at a proper and reasonable rate, I would have no objection to co-operative banks doing the financing for manufacturers.

9216. Have you any co-operative bank in view which, according to your idea, is doing this two-fold work?—I cannot tell you precisely.

9217. Would such a thing be allowed under the co-operative convention or constitution?—I do not know.

9218. Are these mere suggestions of yours, or are they actually complaints or suggestions received from some co-operative institution?—I cannot tell you at this stage how I came to write them when I submitted my statement.

9219. Are you connected with any co-operative financing institution?—No.

9220. These suggestions have more or less been culled from newspapers giving an account of co-operative banks?—Yes, out of co-operative credit societies' reports.

9221. Do those reports deal with these suggestions?—I am not certain.

9222. I should like to know how these have come in?—They have come out of my readings of newspapers and reports of co-operative societies.

9223. Can you refer us to any particular report where we can read these particular recommendations of yours?—No, except what I referred to before.

9224. *Mr. Devadhar*: When you talk of infancy of the co-operative movement, do you strictly interpret it in the literal sense of the term?—What I mean to say is that it has not yet proved to be a success. When I say it is in its infancy, I only mean that it is a growing institution, which has not yet been perfected.

9225. Then what do you think of a co-operative bank which has been in existence for over 21 years? Will you still say that it is in its infancy?—Yes, I will still call it so.

9226. *Sir Hugh Cocke*: You said that you were in favour of having a firm of auditors to audit the bank accounts rather than individual auditors?—Yes.

9227. What is your reason for saying that?—A firm of auditors will command greater respect than an individual auditor.

9228. It has been suggested to us by some witnesses that the auditors should be men of some standing and at least a few years' experience. Would you like to place any limit on the experience and seniority of auditors auditing the bank accounts?—I certainly agree that auditors should be men of great experience and standing.

9229. Would you allow any single auditor working under a firm's name to audit accounts of banks?—That is rather a difficult question to answer. Provided the firm commands sufficient respectability, I do not see any reason why it should not.

9230. You said that you were against officers of banks using proxy votes, but you were not against their using their individual votes as shareholders?—Yes.

9231. In other words you imply that only shareholders should be allowed to vote at the annual meetings without any proxy votes?—Yes, in case of bank officers only.

9232. You mentioned that depositors with Rs. 2 lakhs should have a right to elect one or two from among themselves as directors of banks to the credit board. Would you place any limit of time on their deposits? Where will you draw your line of demarcation?—At least the deposits must stand for one year.

9233. *Mr. Ramdas Pantulu*: Should the deposit continue after the election or can it be withdrawn?—He must continue to be a depositor even after the election.

9234. *Sir Hugh Cocke*: With regard to the question of "dead stock" quoted in the balance sheet of the Bank of Bengal and the increase of about Rs. 28½ lakhs in the short period of two months of December 1920 and January 1921, surely this cannot be an appreciation; I presume it merely shows an enhanced figure because of amalgamation of other items. Is that not so?—Your guess cannot be correct; here is the explanatory note on the final balance sheet, it does not say so.

Chairman: Possibly when the three banks were amalgamated, they would have increased that figure by revaluation or otherwise.

Mr. Manu Subedar: It might also be probable that they might have removed their secret reserve and appreciated the value of "dead stock".

The domestic scheme referred to in the special meeting before the amalgamation does not bear out your conclusions.

9235. *Mr. Rushforth*: You say that the "cost of management of a bank should be in due proportion to its capital and work, and it may be reduced by curtailing overhead charges; the pay of the heads of banks should be according to their respective qualifications and should be governed by the bank's annual profit and not one uniform pay, irrespective of its profit and loss". Is it your idea that bank managers should have only a nominal salary over and above a certain percentage on commission and profits?—At present there are two Managing Governors for the Imperial Bank of India who are paid Rs. 10,000 every month and everything found. Even the Managing Governor of the Bank of England does not draw such a large salary. Then again, there is no need for two Managing Governors of the Imperial Bank, as only one of them at present actually looks after the affairs of the Imperial Bank. So, my point is that the overhead charges of the Imperial Bank are very heavy. So also of other banks.

9236. I am not concerned with actual figures, but I am only concerned with your point or principle of paying bank managers on the basis of the profits earned by the bank, because it has been represented to us that this principle is a dangerous one as bank managers will try to show more profits to increase their own earning?—My idea is that the salaries should be paid in the same proportion as they are paid in English banks.

9237. So, you only compare the general level of salaries rather than make them a basis of the profits earned?—That is so.

9238. *Dr. Hyder*: In reply to the Chairman you said that the bank rate should be such that the share exchange should not collapse like a house of cards. What is your view about it; should the bank rate be high or should it be low?—My point is that if you advance money on speculative shares, the margin should be higher than the usual bank rate.

9239. Then is it your intention to have two bank rates?—Banks generally grant or refuse loans without assigning reasons. Sometimes Imperial Bank makes advances to some constituents at even less than the bank rate. I therefore say that it is within the province of the Imperial Bank to increase or decrease the bank rate to certain constituents.

9240. You say that "in case of compulsory liquidation of banks, all depositors should first be paid in full, then the menials, workmen, etc.". What is it you are referring to when you talk of menials, is it their pay or their deposits?—It refers to deposits.

9241. If it is deposits to which you have referred in the case of menials, then I thought you would have placed their case first in the matter of payments. Anyway I will leave it at that and proceed to further questions. Are you connected with the University of Calcutta?—No.

9242. Is there any university which gives a special degree in banking?—I know that in England there is an Institute of Bankers which grants degrees or diplomas for men trained in banking.

9243. You have made a very interesting observation in your memorandum and say that the greatness of the English nation rests on banks and bankers. Does the greatness of England depend on this alone or are there other foundations as well, such as commerce?—That is so. Commerce also plays an important factor. What I mean to say is that Government and Banks are interdependent. Take, for example, a recent instance which I read in the papers. Mr. Winston Churchill wanted to introduce certain legislation for the introduction of a big silver coin, but the banks would not agree.

9244. Could you tell us more about it?—If you want me to give any reference on this point, I shall send them on to you.

9245. *Mr. Manu Subedar*: You say that the "Government post office savings bank and cash certificate system very largely interfere with the true banking system of a country". What had you in mind when you wrote this?—Government have usurped the functions of banking in this way by tapping all the money in the villages.

9246. Do you object to the volume or to the rate of interest or both?—Government give about 3½ per cent or so on savings banks and about 5½ per cent or so on the cash certificates. If Government tapped the resources of the poor people, then they should be prepared to pay the rate of interest which is almost conventional with the other banks.

9247. You say Government should not borrow at such high rates. Is that not your point?—That is also my point with cash certificates.

9248. Referring to the high rates of interest paid on sterling loans for India raised in England, you say that this was not due to the Congress resolution at Lahore or to activities of the extremist section but, more or less, to the wrong financial policy followed by the Government of India and its want of a sound currency, and bankers worthy of the Government of India. Are you in favour of sterling borrowings abroad for purposes of Government in this country?—I am dead against it.

9249. Therefore, even if Government had borrowed at a lower rate of interest in England, you would have objected to it?—Yes.

9250. Would you attribute it to undue fear on the part of the Finance Department of the Government of India?—I cannot make any reflection on the Finance Department, but that is my humble submission.

9251. You do not think it was due to the political situation in India?—No, certainly not.

9252. With regard to the registration of mortgages given to banks, you suggest that before a mortgage with a bank can be completed, information would have to be given to all the other banks and an assurance secured from them that the property had not been previously mortgaged. Have you made this suggestion in view of any case that has arisen in connection with this subject?—Yes, the Guzder case was in my mind.

9253. Would you also provide such a provision in the case of equitable mortgages which are in operation in the presidency towns?—Equitable mortgages are also registered, although some people out of fear of losing their good name do not agree to have equitable mortgages registered

9254. But it is very unwise for banks?—It is so.

9255. You would therefore suggest that a special register should be maintained of mortgages with banks?—Yes.

9256. It would be easier generally if there is a special register from which it could be ascertained whether a particular property has been mortgaged with any bank or not?—That is so. There is no co-ordination at present between the existing banks in this connection.

9257. With regard to the legal definition of banks, this Committee is naturally expected to do something in this connection and I understood from your reply to the Chairman that you would exclude all institutions which are trading in stocks and shares except for their own holdings and similarly those who are trading in immovable properties except those that come to them as collateral. Is that not so?—Yes. My idea is that the functions of a bank are very well known and should strictly be confined to it.

9258. Of course the broad functions are well-known, but there is the borderland question which has got to be decided. Subject to those conditions you would not have any objection to an institution using the name bank?—That is so.

9259. With regard to the prohibition of bank directors taking loans, without giving any names, could you tell us whether you have heard of any bank that has lost anything on account of loans given to its directors,

apart from the cases of Alliance Bank of Simla or the Bengal National Bank where frauds were perpetrated?—I cannot say. I do not specifically remember any particular case.

9260. *Chairman*: I think in answer to Mr. Mukhtar Singh you said that co-operative jute credit and sale societies would be very useful institutions in Bengal. Are you aware that such societies have existed in Bengal and do you know what their experience has been in this matter?—You have read in the papers something about them; have you read that their experience has not been particularly happy?—I have read that, but I cannot disclose the reasons for their present bad state of affairs.

9261. With regard to the higher staff of the Imperial Bank of India, you said something in answer to Mr. Mukhtar Singh about the status of the European and the Indian assistants. Have you any precise knowledge of the scheme which is actually in operation in the Imperial Bank at the present time?—Yes; from the copy of the correspondence that I have forwarded to you, you will see that the Imperial Bank forwarded to me the particulars in regard to the position in Bengal.

9262. Have you any information as to how this scheme has actually worked? Have you any personal knowledge?—I interviewed Mr. Stewart of the Imperial Bank at Calcutta and he would not tell me anything exactly but only gave me an evasive answer. He would not disclose all the facts to me. Possibly you must have obtained better information.

9263. From the information which we have in our possession it seems that the answer which you gave to Mr. Mukhtar Singh is apparently not correct?—When I made further enquiries in regard to this matter at Bombay and Poona recently, an Indian officer in the second grade in the service of the Imperial Bank told me that there is very great discontent in the Indian ranks because they are not getting their legitimate promotions as Europeans do. That is all that I can tell you.

9264. In answer to Dr. Hyder you said that there is an Institute of Bankers which gives licences or diplomas. Are you aware that in India you have an institute of bankers?—Yes, it was only recently established, but it is not working properly.

9265. If that is your information, I shall not proceed with that point. I think in the course of your answer you said that Government taps most of the money in the villages. Do you know that in the villages there are no banks and that but for the post office savings banks in those places, there would be no institution which would develop the habits of thrift among the villagers?—I have said that I am for the establishment of State Bank for tapping *mofussil* capital.

9266. *Chairman*: You say that you want a State Bank. Will that State Bank have a branch at every *mofussil* station where at the present moment there is a post office savings bank?—My idea is that the State Bank will do the Currency business and Treasury work, and also do the industrial and land mortgage business.

9267. Have you at all tried to picture to yourself what the cost of that organisation will be?—The Government, through the Post Office, have been doing that work; now that work has only got to be improved.

9268. Surely, you do not mean to suggest that there is a defect in the system. So far as I know, the post office savings bank arrangements are very much appreciated by the public. I do not quite understand what you

mean by improvement?—By improvement I mean certain facilities to be given to illiterate people in the *mofussil* in the matter of withdrawal of money etc.

9269. I have administered that Department myself for over five years and I know that the postmaster has to be satisfied, before he disburses the money, that the money is not being paid to the wrong party. So far as my experience goes, there has been no complaint from the *mofussil* stations. Your original idea was that there should be a big State Bank and that this State Bank should have a branch at every mofussil station where there is at present a branch of the Post Office Savings Bank. The other day a witness told us that the post office savings bank is being worked very economically; that the postmaster seldom gets more than Rs. 150 per mensem; normally he gets about Rs. 100. This, no doubt, is a very cheap arrangement. If, on the other hand, you were to substitute for that machinery a regular branch of the State Bank, the cost is bound to increase.—I wish to make my meaning clear. There has been a great talk about the deposit habit. Government have withdrawn the stamp duty to popularise the cheque system all over India. I know for certain that certain people do not go to the postal savings bank on account of their illiteracy and on account of the difficulty in withdrawing money. What they do is to deal with the post office through a third party, possibly a son or some other relative, thus exposing themselves to the possibility of their being deceived. If Government can introduce some such system as the postal cash certificates whereby illiterate people can deposit their money and also withdraw their money in the same way as notes, it would be a great advantage.

9270. If they are so illiterate and in addition so gullible as to be deceived by their own relatives, how can a solution be achieved?—By introducing a system of coloured notes, different denominations being represented by different colours, red, blue, etc.

9271. Have you at all considered the possibility of fraud in the various directions which may arise from such an arrangement?—Of course there are two sides to every question. If illiterate people can be guided by colours in the matter of recording their votes, then the system of coloured notes could be introduced safely.

9272. My point is: if, for instance, red notes are issued by some Treasury, what stands in the way of similar red notes being manufactured by millions of people who will be anxious to make money?—I admit there will be no safeguard.

9273. Therefore, I take it that you are not so keen on replacing the postal savings bank system by a scheme of coloured notes?—Not under the circumstances you mentioned.

THIRTY-FIRST DAY.

Tuesday, 14th October 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Sir PURSHOTAMDAS THAKURDAS, KT., C.I.E., M.B.E. (*Vice-Chairman*).

Mr. F. V. RUSHFORTH.
Mr. MANU SUBEDAR.
Sir HUGH COCKE, KT.
Dr. L. K. HYDER.
Mr. W. LAMOND.
Mr. V. RAMDAS PANTULU.
Mr. R. W. BUCKLEY.
Mr. G. K. DEVADHAR, C.I.E.
Choudhri MUKHTAR SINGH.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).

Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Sir Lalubhai Samaldas and Mr. S. L. Apte, representatives of the **Bombay Provincial Co-operative Bank** were examined.

Witness (*Sir Lalubhai Samaldas*): Sir, my Chairman, Sir Chunilal Mehta was to come here today, but unfortunately or rather fortunately he is at the moment engaged in a Government of India's work on the Salt Committee and he is very sorry that he has not been able to come here today. I will try my best to represent him and can only express his and the Bank's regret at his unavoidable absence. In his place, I have requested Mr. S. L. Apte, who is one of the Directors of the Bank to come and help me. I hope the Committee will have no objection.

Chairman: We are very sorry that it has not been possible for Sir Chunilal to come here, but we welcome you and Mr. Apte; I am sure that you both will be able to give us all the assistance that we require.

9274. *Mr. Manu Subedar*: Sir Lalubhai, you were a Chairman of the Bank for some years?—Yes, that was some years ago.

Witness: Mr. Chairman, if you will kindly allow me, I want to read out a statement which is as follows:

> "With reference to point 18 of the supplementary note of the evidence I should like to mention to the Committee that although in December 1929, the Dhulia branch of the Imperial Bank of India—and I am given to understand other branches as well—intimated to local Co-operative Banks that they would stop issuing drafts on Government account at par for any purpose whatsoever, on this matter being represented to the Government of Bombay, the orders were countermanded and at present Co-operative Banks are permitted the use of drafts on Government account at par on their submitting certificates of the type mentioned in point 11 of the note.
>
> Similarly, with reference to points 20 and 21 of the note, I should like to make it clear that since February 1930, the Dhulia branch of the Imperial Bank of India has modified its previous policy and at present no inconvenience is felt in either

of the two respects at the Dhulia Branch of the Provincial Co-operative Bank. Whether this change in the attitude is due to the representations made by the Bank to the Government of Bombay and the Bombay Provincial Banking Enquiry Committee or to a change in the personnel of the staff at Dhulia, it is difficult for me to say. The present practice seems to be that instead of withholding the issue of drafts the local Agent gets himself satisfied by asking for the necessary explanation from the branch of the Provincial Bank, and I would mention that such explanation we shall always be very willing to supply as there is no desire on our part to misuse any concessions granted by Government."

9275. *Chairman*: In your answer I find that you suggest that the definition of a bank should be so framed as to include societies registered under the Co-operative Societies Act. Will you kindly tell us the reasons for this suggestion?—We would not have made this suggestion had we not experienced certain difficulties when our debentures guaranteed by the Government of Bombay under the orders of the Secretary of State were not treated as trustee securities, merely because the word used under the Trusts Act was the word 'company' and not 'society'. Then we approached the Government of India who regarded the matter as too trifling to be tackled by them. Later, one of the Directors of the Bank, Sir Fazulbhoy Curimbhoy, who was a member of the Assembly, moved an amending bill which was accepted by the Government and passed. We want that in future when the Reserve Bank Bill comes into existence—as it is hoped it soon will—the same mistake of not classing our banks as banks should not debar us from the concessions that we, as banks, are entitled to. Another thing is that we are doing banking business and therefore we should be classed as banks and not as societies.

9276. Take your Apex Bank or your Central banks. Are these also treated as societies?—They are called societies but they are doing banking business, and therefore they are all banks in the real sense of the term.

9277. You do not want your primary societies to be treated as banks? —No; but I want to make an exception. With regard to the primary societies I had in mind the rural primary societies or the urban non-credit societies when I said 'no'. But there are what are called urban banks which are doing purely banking business; they should be treated as banks. Rules may be prescribed laying down that urban banks with a working capital of Rs. 50,000 should be treated as banks while those with working capital below that figure be classed as societies. We have suggested one standard; on behalf of the all-India Provincial Co-operative Association another standard has been suggested. It is therefore for this Committee to decide what would be the right figure: that is, whether it should be on the paid-up capital basis or whether it would be on the working capital basis.

9278. Among the reasons given by you in support of your statement that co-operative societies and banks are entitled to concessions, you mention the practice among several co-operative banks to divide their profits with borrowing customers after the payment of a stipulated return on capital. Can you give us some particulars as regards the banks in your province that have thus shared the profits with their customers?—I will

take our Provincial Co-operative Bank, when we entered into an agreement with the Secretary of State for the Bombay Government's guaranteeing our debentures, it was laid down that if a dividend of more than 6 per cent. was declared, half of the extra profits should be given to the borrowing societies; that is to say, taking the figure of 10 lakhs of share capital as an instance, if our profits came to one lakh and 20 thousand and if we took 20 thousand as provision against bad and doubtful debts, then we would have one lakh remaining. If the Board decided to declare a dividend from the whole, the amount of 40,000 that will remain after paying a dividend of 6 per cent., that is 60,000, must be divided equally between the borrowing societies and the share-holders. This is the practice with regard to the Provincial Bank. In the case of District banks, a rebate of ½ per cent. is allowed. In the case of the urban banks, they keep back 25 per cent. as reserve, they can declare a dividend upto 9 per cent.; the remainder is used for distribution among the borrowing customers. The Registrar has laid down that this should be incorporated in the bye-laws. I have a copy of the bye-laws in Maharati, but we will get them translated into English and send them to you.

9279. It will be very useful if you and Mr. Apte will kindly send us a note supported by an English translation of these bye-laws. The point then is that where a society or an urban bank adopts these bye-laws, it becomes obligatory on it to set apart a certain portion of its profits for the benefit of its customers?—That is the position.

9280. Assuming that both the borrowing banks and the borrowing societies get this concession, then in either case is it passed on to the primary borrowers?—That is done directly or indirectly.

9281. You as a district bank, having received this money from the apex bank, pass on a portion of it to the actual borrower?—Nearly the whole of it.

9282. In what way do you do that?—We give the rebate triennialy, the profit is distributed at the end of three years *pro rata*.

9283. You mean in proportion to their borrowing from you?—Yes.

9284. *Chairman*: Your Board suggest that co-operative banks which are now exempted from payment of income-tax on profits should also be exempted from payment of income-tax on income derived from investments in Government securities. What would be your answer to the criticism of one of the provincial Committees that it is no part of the business of co-operative societies to invest a great deal of their capital in interest bearing securities and that if they do so they should, like other investors, be subjected to the deduction of income-tax from the return on such investments?—May I in this connection refer you to the recommendation of the Bombay Provincial Banking Enquiry Committee which brings out the point clearly?

9285. I take it you are referring to paragraph 235 of their report—Yes.

9286. That may apply to the case of securities which you are compelled to purchase to maintain the required fluid reserve; but the impression I gathered in examining the representatives of certain other provincial co-operative banks was that the actual securities are in excess of the fluid reserve which the provincial bank has to maintain under the Registrar's rules. Why should they be free from income-tax or super-tax?—May I just go back to the basic principles of banking?

9287. That is another matter. So far, you have been trying to pursue the Bombay Committee's argument and here I have mentioned to you an argument which to some extent meets that argument. If you have other arguments to produce, I shall be glad to hear them.—That is the first argument. Secondly, we want to help Government if we can in our own way and Government should treat us as though we were their helpers. We get deposits from district banks and other affiliated banks which come to about 75 per cent. of our fixed deposits and we have to keep that money, the arrangement being that an apex co-operative bank must be a bank for giving facilities to district banks when required and to keep their money when they do not want it. It is an arrangement for the whole movement. When we get that money, we must use it. If Government, on account of financial trouble, is not able to develop the co-operative movement as it ought to for a year or two and the money is there, we can use it in two ways only, *i.e.*, either in buying Government securities or lending to joint stock banks approved of by the Registrar and in our case by Government also through the Accountant-General. The Accountant General and Government fix limits for loans to be advanced to each bank, whether Exchange banks or joint stock banks. Supposing we are flush with money at a certain time and have, say, 50 lakhs of rupees and we do not require it for three or four months, we do not want to lose interest on the money. Government are in difficulties just now and have borrowed treasury bills at a very high rate, but when they were not doing it, we had to invest somewhere and we could invest only in Government paper. We want to make as much profit as we can and we advance to banks which are prepared to co-operate with us. We do not want to advance to banks that do not treat us as equals. There are few banks who would treat us in that way and we advance to those banks, or else we have to keep the money idle which would mean a great loss to us. I suggest that income-tax on Government securities should not be charged, because we believe that that income is a part of the income we would have received had the movement spread as we wanted it to spread. It does not so spread and at times progress is slack because Government have no money to spare for the expansion of the movement. Sometimes Exchange banks or other banks are flush with money and do not quote for deposits or quote a very low figure. We think it best at such times to invest in Government securities .

9288. So far as the money is required for what I may call legitimate use, *i.e.*, inside the co-operative movement, I have nothing to say: but when there is no use for the money for legitimate purposes (I shall use that expression in the sense I have already explained) and when you use it, would not that constitute an unfair competition with an ordinary joint stock bank? Suppose this concession, *i.e.*, exemption from the operation of the ordinary Income-tax Act, were given to you irrespective of the consideration for which the money is used, nothing would prevent you from attracting as large deposits as you can and then investing the funds in Government securities. I am not concerned at the present moment with what the present provisions of the law may be. I believe that one witness who gave evidence on behalf of another co-operative bank said that they were contesting the present decision of Government, *i.e.*, the legality of it. If the decision is illegal, it is quite different. It does not come within the purview of this Committee. But looking at it from the purely banking point of view, if the concession were to be given to you without any limitation, is that not likely to lead to an unfair competition between, say, your

apex co-operative bank and another joint stock bank situated also in Bombay?—In the first place, I would like to make it clear that a bank ought not to refuse deposits at a fair margin. I believe the bankers present here would agree with me that if a bank once tries to choke off deposits, it would not be able to attract deposits at a later stage when money is actually wanted.

9289. I do not contest that?—Therefore we have to borrow. The second point is about the rate of interest. I believe I am right in saying that as regards my provincial bank and most of the well managed district banks the rate is not at all higher than what indigenous joint stock banks pay. I believe the Exchange banks usually pay 4 per cent. on annual deposits. We pay 4½. On current accounts we pay 2 per cent. during the slack season, *i.e.*, from 1st July to 31st December, and 2½ per cent. during the remaining six months of the year. I believe almost all the indigenous joint stock banks do the same. Some of the Exchange banks pay 2 per cent. during the whole year, some follow our precedent. The Imperial Bank of course has Government money. We are not competing unfairly or taking advantage of the concessions given to the movement by competing unfairly with Exchange banks or joint stock banks. Our rates are equal to those of the best managed joint stock banks; they are lower than those of some of the Indian joint stock banks. I do not think that Exchange banks would ever complain that the co-operative movement is taking away money from them. They pay 4 per cent. and get as much money as they want.

9290. Even so, what is the result? If Government were to give this concession to your bank under a peculiar arrangement, a part of the profit would be passed on to the borrowing societies and therefore it may or it may not be passed on in the long run to the borrowing ryot. Still a portion of it would go to the advantage of the shareholders of the bank and to that extent there may be unfair competition between your bank and a joint stock bank. I need not discuss the question of foreign Exchange banks or of the Imperial Bank.—We want fair treatment and under the Act as it stands at present all our income should be exempted from income-tax.

9291. At the present moment I am not discussing the legal aspect. If you are entitled to get exemption under the law, you will get it, but apparently you are not entitled to it under the law and that is why you are not getting it. At the same time we have been told by some witnesses from Madras that they are going to contest the legality of that decision. We may therefore leave out the legal part of it. So far as the rights are concerned, a doubt has arisen in my mind, and perhaps in the minds of my colleagues, that if this concession were given without any limitation, it might operate as an unfair competition against an ordinary joint stock bank.—I shall take the balance sheets of my bank for the last 5 or 6 years, work out the fluid resource, the money we get, the actual income we have received from Government securities over and above the fluid resource, the amount of concession that would come to us if this concession were extended and then we can see whether it would be feasible for us merely with the help of this amount to compete with a joint stock bank. I am coming to the practical side of the question.

9292. Would your calculations bring out the fact that the amount is too small to be of help to you?—I never said it would be too small to help us; it would be too small for competition.

9293. If it is too small for competition, then I suggest it is also too small to help you. It means that half the additional profit would be distributed among the share-holders.—That is one of the reasons why I want half to go to the primary societies. After all, if you come to the basic principle, what is the co-operative movement doing? It is helping the agriculturists whom it is the duty of Government to help. We are doing our duty by Government and I think it is the duty of Government to stand by us. I think we can as a movement help Government to get land revenue from the agriculturists.

9294. That is an arrangement peculiar to Bombay. We are considering this question as a general question for the whole of India and we cannot overlook the fact that in the rest of India, profits simply go to the share-holders or add to the reserves of the bank.—I have presided over some provincial co-operative conferences and I know that complaints have been made by Government officials that provincial banks unnecessarily raise the rate of interest to attract deposits to invest them in the movement in order to get more profits for the share-holders. We are not doing it in Bombay and we do not want to do it. I would like the Committee to consider our case as a special one.

9295. We will undoubtedly pay the fullest consideration to the views you have placed before us, but let me put it to you that we cannot make a special recommendation in favour of Bombay.—You might make it a rule that those who divide their profits after allowing for a certain dividend with the societies might be given a concession.

9296. If they pass over the whole of the additional profits to the borrowing societies and if we were satisfied that the whole of such additional profits actually reached the ryot by a reduction in his borrowing rate of interest, perhaps that would have a greater impression on our minds; but unfortunately that is not the position. I think we have got from you all the information we wanted—I want to make it clear that if this concession is granted half of the extra income will go to the societies and the remaining half will remain with the Bank.

9297. Would you object to Government assistance being given in a direct form as a cash subsidy instead of being concealed in the form of an exemption from tax?—I would like to have it as a right. It is better not to have it than have it as a subsidy.

9298. You can only have it as a right if it is decided by competent legal authorities that the present law gives you the right. If, on the other hand, it is decided by the legal authorities that the present law does not give you the right, we actually come back to the question of a special concession.—I feel rather hurt when the word 'concession' is used. I want it as a right for the movement. If the word 'right' is too strong, I shall only say that I do not want a subsidy.

9299. It has been suggested that interest derived from Government securities held as an investment of the reserve fund should be exempt from income-tax but not the interest on securities held for any other reason, *e.g.*, temporary employment of funds during the slack season. I take it that would not satisfy you.—It would not satisfy me.

9300. You suggest that the Provincial Co-operative Institute which arranges courses of training for the co-operative managers and bank inspectors' examinations should be assisted by Government in conducting a regular school for advanced training in co-operative banking and

accountancy. Will you kindly tell us whether any scheme has been drawn up for such training and whether it was submitted to Government at any time?—A rough scheme was drawn up by the Co-operative Institute for a school of this kind and it was thought that the Government of Bombay would assist it to a certain extent. Later on, the financial position of the Government was such (as I believe is the case with other provinces and even with the Government of India) that it was understood that the Bombay Government would not be able to help us. The scheme was not therefore put in a final shape in which it could be presented.

9301. Therefore it is one of the many schemes which had to be laid by until the financial position of Government improved and even if we were impressed by the necessity of the measure and made a recommendation, obviously it would share the same fate.—It might. I daresay your Committee knows the kind of work done in the Punjab for the education of these officers. I would refer you to the "Report on the system of training of Co-operative officers in the Punjab". At the Registrars' Conference in 1928 Mr. Darling explained the kind of educational work they were doing in the Punjab. I think that what Punjab is doing ought to be done in all other provinces. At present we have not got this type of schools and it is open to anybody to say that our men are not properly trained. We do not want that allegation to be made although that allegation is not justified, because our men and the men of district banks are as well trained as any other bankers. We have not got theoretical education, but these people have education by experience. I want that the men in the co-operative movement should have the same theoretical education which other bankers have had and therefore we want that facilities should be given to us. It is a pity that the Bombay Government cannot help us at the present time, but if your Committee recommends that education of this type should be given, I believe that the rich men of Bombay and the co-operative movement would combine to raise a school and approach Government for grant. I want your Committee very seriously to consider whether education of this kind over and above that provided in the syllabus of the Bombay University for the Arts, honours in economics and Commerce and Agriculture courses is necessary to enable them to do their work better than they are now doing.

9302. I think you said that the Bombay Government were not willing to pursue this matter until their financial position improved. That shows that they themselves admit the desirability of introducing some such arrangement. That being so, what prevents the co-operative movement and the rich men of the Presidency who are interested in the movement from finding the money for a school of this sort without waiting for the recommendations of this Committee?—I would not have mentioned this matter if it had not been included in the questionnaire. As it had been included, I wanted to have your blessings.

9303. You also suggest that co-operative banking should be introduced as a special subject for the degree of Bachelor of Commerce and for the examinations held by the Indian Institute of Bankers and the lower commercial examinations conducted by Government. Having regard to the fact that the general subject of co-operation is included in the syllabus for the degrees in Arts with Economics and in Commerce and that there are and would be special facilities for practical training in co-operative banking, would you still insist on greater prominence being given to the subject of

co-operative banking in the syllabus of University examinations?—Co-operation is one of the fourteen subjects and one of the sub-subjects of these fourteen given in the Bombay University handbook. If any economist can tell me that co-operation is receiving the attention or is given the prominence that it deserves, I am prepared to withdraw my recommendation. Co-operation is at present a subject for the Honours History Course or History and Economics course or the College of Commerce examination. I specially want that graduates whom we want to take up either with Honours in Economics, in Arts or Commerce should have a greater knowledge of theoretical training in Co-operation.

9304. You state that your Board are definitely of opinion that a proportion of the receipts from cash certificates and savings bank deposits should be made available, preferably through co-operative agency, for financing agriculture and small industries. Leaving aside the general question of the utilisation of such savings for the general requirements of the State, will you kindly furnish any facts and figures to show how co-operative banks have been handicapped in financing rural areas owing to the investment of savings in rural areas in cash certificates and savings deposits and the directions in which local production could be helped if such savings were placed at the disposal of co-operative banks?—I think that when this question was drawn up the Committee probably felt that the co-operative movement had sufficient money to invest in Government securities or in joint stock banks. I do not want that the Committee should take the narrow view of to-day or to-morrow, but a farsighted view of the progress of the movement in all directions. It may be that in one year one province is flush with money and in another year another province is flush with money, but if the movement does proceed as it ought to and is bound to proceed if it is ever going to solve the question of the economic uplift of the agriculturists, this ought to be and must be one of the chief objects which the Committee should have in view. If that is so, I think provision should be made under which the movement could automatically expand. That is my argument on the theoretical side. About facts and figures, we have noticed that postal cash certificates are issued at a rate which gives a better return to the depositor than what he gets from us and therefore there have been withdrawals from us. I am not speaking for my bank, but personally I have felt all along, from the time I was in the Council of State, that Government take away money from the rural areas, instead of bringing back the advantage of that money to the rural areas. I am not particular whether it is done through the co-operative banks or not. The agriculturists have a claim on Government and I want to press that claim on behalf of the agriculturists as one who feels for them as strongly as one feels for his fellow brothers.

9305. *Chairman*: You are fully aware that the money at the present moment comes into the general capital resources of Government and the money derived from these sources are spent in the directions which undoubtedly benefit the agriculturists. There are three principal items in the Government's capital programme: they are railways, irrigation works and thirdly, what are called as the provincial loan advance accounts. Each of these does benefit the agriculturist in a certain manner. If, of course, it had been established that the co-operative movement is actually in need of money at the present moment for the prosecution of its scheme of financing the rural agriculturists, undoubtedly there might have been

a good case for Government making that money available for that particular purpose by reducing the outlay in some other directions. But so far as the finding of the Bombay Provincial Banking Enquiry Committee is concerned, they say that there is no difficulty about raising funds, but the difficulty lies in seeing that the funds which are placed at the disposal of the co-operative movement are properly utilised and that nothing will be done to shake public confidence. Therefore, the wisest thing for the co-operative movement in your province to do would have been to use the funds at your disposal in the best interests of the population rather than keeping the funds locked up with the prospect of its being employed 5 or even 10 years hence. My recollection is that in the last Reserve Bank Bill which was introduced in the Assembly some provision had been made for the grant of assistance to co-operative banks for the purpose of developing their legitimate functions. If such a provision is made when the Reserve Bank comes into being, would that not satisfy you?—Speaking for my own sake and not on behalf of the Bombay Provincial Co-operative Bank, but speaking as a friend of the agriculturist, I want this Committee to lay down, if it possibly can, that all monies received from the rural areas shall be earmarked for expenditure in rural areas only. I do not want that money to go to the military expenditure of the Government of India or for the capital expenses at Delhi or say the Backbay reclamation of Bombay.

9306. But you know, Sir Lalubhai, that those receipts never go to cover the military expenditure of Government but it has to be financed out of the revenue. And you know your Bombay back-bay scheme was financed out of the proceeds of a special loan. If people from the rural areas subscribed to that loan, can that be stopped in any way?—In any case we might leave it at that, but may I ask whether it is not possible for the Committee to make a recommendation for earmarking in the way I have suggested?

9307. I have referred you to the provision in the Reserve Bank Bill. The whole object of the Reserve Bank is to secure greater mobilisation of the Reserves. If we accept your suggestion—I do not know what the Committee will decide on this matter—that the funds collected from the rural areas should be earmarked, then that will interfere to a great extent with the mobility of the resources and it is quite possible in the long run it might prove to be quite detrimental?—May I send you quotations giving the opinions of experts in foreign countries who say that this earmarking will be much to the advantage of the rural population?

9308. I have seen several quotations myself, but I can refer you to a great number of quotations which say that this earmarking is quite detrimental and is against the interests of the country at large. Now I will proceed to another point. You ask that the Government of India be moved, in view of the need for developing banking and remittance facilities through all possible channels in rural India, where co-operative banks are the only organised institutions operating, to recognise that inland exchange business is a legitimate function of co-operative banks. To enable the banks to do such business you plead for the continuance of the concession of free transfer of funds through the Treasury and State; that if a State Central Bank does not come into existence, apex banks in various provinces may have to continue to form their own all-India Co-operative Bank to which certain privileges will have to be

allowed. Will you kindly explain what scheme you have in view?—If you permit me to take up some of your time, I would like to give you the history from the very beginning. In the first place, talking on the principles, I would like to quote one sentence from the Report of the Hilton-Young Commission. They have said, "we trust that emphasis will be laid on the provision and extension of cheap facilities to the public including banks and bankers for internal remittance". This is an observation which your Committee should examine whether you agree with the general principles or not. I would now go back to the history of the case dating from about 1920. The then Registrar of Co-operative Societies at Bombay, Mr. Rothfield, was sent by the Bombay Government abroad to study the question of internal exchange and inland exchange and the cheque system as worked in the co-operative movement in other foreign countries. He came back with new ideas and at his suggestion the then Governor of Bombay (now Lord Lloyd) thought that it was best that the co-operative movement in this country should make the system of cheques and other instruments of credit popular in rural areas. To do this and to facilitate the internal trade remittances, Government decided that co-operative banks should have this facility of using the R. T. Rs. for this kind of work. This went on for 2 or 3 years and the Governor at the various conferences and other occasions where he presided laid stress on the good work done by the co-operative movement in this direction. The next Governor, Sir Leslie Wilson, also supported the principle. Later on, the treasury officers at Belgaum, where a co-operative urban bank was doing this work felt that the work was too heavy for them in the matter of internal remittances passing through the co-operative bank. They reported to Government saying that they could not do the work with the existing staff, but they wanted more men if this work was to continue. The Bombay Government referred the matter to the Government of India. In this connection, I do not desire to mention personalities, but it is a fact well-known that the decision of a Secretary or a Deputy Secretary in the Departments of the Government of India is tantamount to a resolution of the Government. Well then, the Government of India issued its resolution in 1924 and you are all familiar with the terms of the resolution. We objected to that resolution. Till then, the Imperial Bank did not have any objection to this kind of work being done by us. Later on the Imperial Bank found that one of our branches was doing the internal remittance business so well that they said that they were not going to give the usual inland exchange facilities to the co-operative societies so long as the Government of India orders were in their favour. We wrote to the Registrar of Co-operative Societies, Bombay, on this matter and also to the Government of Bombay. The Minister in charge called for a committee of some of us (Directors of the Provincial Co-operative Bank), I think Sir Chunilal Mehta, the then Finance Member, was satisfied that the co-operative movement was entitled to do this kind of work as it was their legitimate business but as the question of the Imperial Bank giving them facilities or not was more or less a question which was for the Imperial Bank itself to decide, he advised us to approach the Imperial Bank authorities in this respect. On that suggestion we wrote a letter to the Imperial Bank. I think Sir Purshotamdas Thakurdas was the Chairman of the Board of Directors of the Imperial Bank of India at Bombay then. Sir Purshotamdas Thakurdas kindly arranged for an informal meeting on this subject which was attended

by Mr. Ridland, the late Mr. B. F. Madan, Chairman of our Bank the Managing Director of the Provincial Co-operative Bank and myself. I have got copies of all the relevant papers in regard to this matter and shall be very glad to send them on to you. Mr. Ridland said that he would stand by the Government of India orders in this matter and that we should not do this sort of business and also complained of the way in which some of our branches did the business. We then assured the Imperial Bank authorities that we would not utilize any Government concessions for this business wherever the Imperial Bank had its branches, but would only cover the field where the Imperial Bank or other joint stock banks had no branches. Mr. Ridland said that it was not his concern, but said that on principle he did not like us to do this business. Later on at the Registrars of Co-operative Societies Conference held at Bombay in 1926 Mr. J. A. Madan moved a resolution on this subject. It was divided into two parts; one was that the co-operative movement can do this inland exchange business and secondly the R. T. R. facilities could be utilised for purposes of inland exchange, demand drafts, etc. This resolution was opposed by Punjab and others and it was finally resolved to accept the first part of the resolution that this was a legitimate business of co-operative banks; but as regards the latter part of the resolution they did not think it right that remittance transfer facilities should be utilised for inland exchange business. My request now to your Committee is that you should examine this question primarily on the first issue, whether the Government of India was wrong and whether the Registrars Conference in 1926 and the Provincial Banks Conference, held later, were right in principle. I can again quote various instances of foreign countries and foreign banks where the co-operative institutions are permitted to do this business.

9309. If you will kindly send us the copies of the correspondence including those which you had with the Governments of India and Bombay it will be of very great help to us?—I shall do so. We knew that we cannot fight the Imperial Bank and we thought it best to give in, as regards the inland exchange. We have no complaint against the Imperial Bank, but our complaint is all against the Government of India in regard to this matter. My second complaint is that the Imperial Bank were very strict in carrying out the instructions of the Government and did not trust our work to the extent that we wanted them to. The Imperial Bank wanted us to give certain certificates in regard to this matter of inland exchange business and our point is that no such restrictions should be placed on us and that the Imperial Bank should treat us in the same manner as any other Indian joint stock bank.

9310. *Mr. Ramdas Pantulu*: Has the Imperial Bank any power to ask for such a certificate from you to say that it is for *bona fide* co-operative purposes?—I entirely agree with you that they have no such power, if they found that we were abusing the trust, the proper course for them would be to report to the Government, but they have not done so.

9311. *Chairman*: I think you said in regard to the case which occurred in your Province at Dhulia, the Imperial Bank has since agreed to accept the certificate?—They are raising difficulties at times. As I have said it all depends on the local men. The previous Agent of the Imperial Bank

at Dhulia was, if I may say so, very rigid and insisted on his pound of flesh but with the present Agent we are getting on very well.

9312. Anyhow your point is that the Imperial Bank are bound to obey the orders of the Government of India in this matter. So we need not pursue discussion. Government of India orders have laid down the form of safeguard which they want the Imperial Bank to adopt to prevent abuses?—That is no doubt a fact. But I might add that when we approached the Imperial Bank for an advance against the pronotes of district co-operative banks backed by our own signature, the Imperial Bank thought it not safe to advance monies on the security of these pronotes, as the security of our pronotes had a prior claim for the debenture issues. Later on two of our directors met the directors or the Managing Governors of the Imperial Bank and explained the whole position to them; as a result they agreed to give us a cash credit of Rs. 8 lakhs on the pronotes of our societies or agricultural paper as they are called. This concession continued for a number of years. Then all of a sudden they stopped this concession. We applied again to the Imperial Bank authorities and I drew the attention of the then Finance Member (Sir Basil Blackett) to the state of affairs, and I do not know whether it was as a result of the Imperial Bank considering our claim as reasonable or whether through Sir Basil's private instructions, the Secretary of the Imperial Bank sent for me and said that as we had not taken advantage to the fullest extent of the principle of cash credit they would reduce it by half, *i.e.*, 4 lakhs. They continued to give us these facilities for some time more, but now they have suddenly cut down the facilities and have said that they can advance no more on the security of agricultural paper. When this was stopped, we thought we were rather in an awkward position. We asked the Imperial Bank if they would give us money on our Government paper, not agricultural paper. They said that legally they could not do so so long as the debentures were in existence. We had to make other arrangements and I must say that other banks have treated us for more liberally than the Imperial Bank, who, considering that they get money from Government, should have been more accommodating.

9313. I think you said little while ago that you were not allowed to go to any bank other than the Imperial Bank?—Not to lend money; we can advance money only to approved banks. Our position is this: we have consulted some eminent counsels on the point and we have been advised that the attitude of the Imperial Bank is not correct in law. We have therefore been waiting for an opportunity to bring this to the notice of the authorities; if the Imperial Bank decides to advance money on agricultural paper or Government paper, well and good; if not, we say that this Committee should recommend that when the Reserve Bank comes into existence, steps should be taken to improve the existing state of things in the manner which you think is proper.

9314. But the Reserve Bank Bill as introduced in 1927 did contain a provision to that effect?—That is so no doubt; but who knows what may happen in future. If this is not done, then the only course for the co-operative banks is to have an apical bank of its own; we might then come to the Government of India for assistance. As you know, when the Maclagan Committee met in Simla in 1915, they drew up a scheme for an apical bank. Our Chairman approved of this scheme, but I objected to it on the ground that it was giving all the powers to the Government and it was practically a State Bank. We wanted it to be a State-aided

bank. We then went to the then Finance Member, Sir William Meyer and he squashed the whole thing, saying "it is bureaucracy pure and simple; I would not have bureaucracy in the Co-operative Movement." Therefore I say that if some provision for our special needs can be made in the Reserve Bank scheme, we have nothing to complain about.

9315. On the lines of the Maclagan Scheme?—No, I was opposed to it then and I am opposed to it now.

9316. If I may make the observation, you have not answered my point. What scheme have you in view?—I cannot give the scheme offhand now; all the co-operative banks will have to meet together and consider.

9317. With regard to your grievance about remittances: as the remittance or the inland exchange business is connected with the legitimate business of the Co-operative Movement, it is already provided for by the orders of the Government of India. I take it that you want a further extension of the business of co-operative banks in that direction; that is, they should be allowed to do this remittance or inland exchange work irrespective of the fact that it is directly connected with the legitimate functions of the Co-operative Movement. Is that the point?—The Government of India's resolution is not like this. They say, "it is not your business." I have with me at the moment a letter from Mr. Collins, the then Registrar of Societies, and this is what he says, "The subject has come up and been the subject of orders on several previous occasions. Briefly the history is as follows. From about 1920 when Mr. Rothfield was Registrar of Co-operative Societies the creation and development of indigenous forms of banking has been one of the features of the co-operative movement in the Bombay Presidency, and it has throughout received the declared support of Government. It is a side of co-operation regarding which the urban banks in this Presidency claim to lead the field, and it is in fact almost peculiar to Bombay. The privilege of using Remittance Transfer Receipts at par for the remittance of their funds was given to co-operative banks under letter of the Government of India, Department of Land Revenue and Agriculture (Land Revenue) No. 14/174/3, dated 22nd August 1906, and when they began to take up exchange business, it was used for this purpose as well. By 1923 the extent to which it was being so used was brought to the notice of Government, and in the enquiry which followed, the Government of India ruled that the buying and selling of remittances was not consistent with the principles of co-operative banking, and that the concession had not been made to co-operative societies to enable them to carry on a commission business." This means we cannot use the R. T. R.'s.

9318. But you can use the R. T. R.'s for ordinary legitimate business. As it is, the business has to be divided into two classes, one is the issue of the R. T. R.'s at par for remittances connected with the legitimate functions of the Co-operative Movement and secondly, there is the remittance work which is really commission business and not the legitimate business of the Co-operative Movement.—The word 'legitimate' might create trouble. I have already made clear the sense in which I am using the phrase "legitimate business". What I wanted to say was this: to help its members or its customers should be considered to be the legitimate business of every urban bank; but it is co-operative in the sense that the members of the urban bank or its customers have every right

to get the facilities which they would get from an ordinary bank. The question then arises whether the bank can use the R. T. R.'s for this purpose or not. I am prepared to agree that where there is a branch of the Imperial Bank, the Co-operative Movement will not do that kind of work using any concessions from Government, but where there is no branch of the Imperial Bank, we feel that co-operation is the only agency which can help inland trade, etc.

9319. That does not in any way make me modify my impression; my point remains that the business can be divided into two classes. Now the question is, is it desirable that co-operative banks should be allowed to do general banking business unless they have managed to get rid of certain defects inside the co-operative machinery? That is the only doubt which has occurred to me.—I can only speak with authority with regard to my own provincial bank. I am prepared to submit to any examination by an expert; I maintain that we are running the bank as efficiently as any other joint stock bank and if any defects are shown therein—I do not mean there are no defects—I assure you, Sir, that the defects will not be greater than those found in any other joint stock bank.

9320. I was not referring to any special banks. I was asking a general question. Even your Bombay Provincial Committee, after examining the facts placed before them, have noticed certain defects, and the Linlithgow Commission which made extensive enquiries also came to the same conclusion, namely, that there are certain defects inside the movement which ought to be got rid of, and I think that they referred to the necessity for greater education. I do not say that they condemned the movement. After all it is a movement for the benefit of the agriculturist?—Who kept them illiterate, if I may ask?

9321. I am not dealing with politics at the moment; I am only concerned with the facts before me. As I have said, I do not condemn the movement. But there is the fact that at the present moment there are certain defects within the movement which stand in need of a remedy and which can only be remedied by the people who are interested in the movement. No outside machinery by arbitrary or sudden action can remove those defects; and my only question was, is it prudent that until those defects are removed, the co-operative institutions as a whole should be allowed to take up more work of a general banking character which is really outside the field of their legitimate functions?—In the first place I do not think it is outside their legitimate functions, as I can show from instances of other countries. As regards the defects which you mention, I can only say that there is hardly any institution which is without some defect or other; not even the Imperial Bank can say that their institution is perfect. I am of course prepared to admit that there are defects in the co-operative movement, but the question is whether those defects are vital or whether they are such as would prevent the movement from spreading in the right direction.

9322. My point is whether it would not be better that the movement should try to get rid of these defects before it embarks on new work.—Sir, on behalf of the Board, I will send to this Committee definite suggestions as regards the line on which we would like to work; and it would help us, in drawing up our scheme, to know what those defects are.

9323. I would refer you to the report of the Agricultural Commission.

9324. *Sir Purshotamdas Thakurdas*: I would like to understand the reason why your bank thinks that it is entitled to a facility which is denied to everybody else in the banking world, excepting the Imperial Bank which stands on an altogether different basis? Why should you ask for facilities which would enable you to compete better with other private joint stock banks or the indigenous bankers?—You mean in the matter of remittance, etc.? I hope you have got before you the Provincial Committees' reports. May I refer you to the map in the Bombay Report which shows where the Indian joint stock banks stand. Our idea is not to compete with or interfere with other people's business, but we do claim that we have as much right to be considered as the Government's favourite wife as the Imperial Bank. We are helping the agriculturist as the Imperial Bank is helping trade and industry. We help the Government to realise land revenue from the agriculturist.

9325. If the Government withdrew this concession from the Imperial Bank, then I suppose you would not ask for it?—The purchasing and selling of bills is a matter which the Government of Bombay specially wanted us to take up to help general banking development; it is not that we have done it on our own.

9326. When we are discussing it here, it does not add anything to the argument whether the Government of Bombay does it or the Government of India does it. I want to understand as to why you want this concession at the expense of the taxpayer. You said you were against asking for any concession or subsidy. How do you establish your right in this connection? It will strike one that there is no question of right and what you are trying is to benefit the co-operative bank instead of the tax-payer.—An indigenous banker from Nasik District who came before the Provincial Banking Enquiry Committee said that so long as we had a branch there there was every room for that branch to do exchange business. He was our customer there.

9327. Was he a co-operator?—He was a customer; he came to us for money for exchange work, but the Imperial Bank insisted that we should not do this kind of business. That means that he has to go 32 miles to the Imperial Bank to get the exchange for his money: Where the Imperial Bank has not got a branch, we want to have the right of doing this kind of work. Whether you would allow it to be done free or not, it is for this Committee to decide, but we want that we should have the right to do it.

9328. What is the special reason for the co-operative movement asking for this concession except to make a little more money?—In the first place, is it accepted that we have the right to do this business on our own?

9329. Before you proceed further, let me make it clear that I am only trying to understand your point of view. I am not contesting anything. If you say that it is your birth-right, I have nothing to say. Let me understand the reason why you want a concession which would place the co-operative banks in a better position, *vis-à-vis* the other banking institutions or persons especially when they are not for the purpose of helping the co-operators.—I said the man was our customer; he has now become our member.

9330. Is he a grower or cultivator?—Any man can be called a member. If he becomes a shareholder, he becomes a member of the bank.

9331. But is he the person for whom you are claiming all these concessions?—I am claiming them for the agriculturists, not merely for the members.

9332. You agree then that it is not for the benefit of the agriculturists so much as for the benefit of the other customers of co-operative banks.—And the small traders.

9333. Including the indigenous sowcar?—If he wants help, we would help him and if we get money indirectly, why should the Imperial Bank resent it?

9334. It is not a question of the Imperial Bank, but of the Government. Government have to look after everybody working in the financial field, a private banker or a private bank.—Any banker doing exchange business is competing with them.

9335. So that if the others find your competition hurting them you would not press for this?—I want to help them if they want the help, but wherever they can help themselves, we do not want to interfere.

9336. Therefore your point of view is that you would go on with your activities as long as they do not injure others.—I do not want to injure anybody.

9337. You are only pressing to that extent?—A co-operative bank as such has to work not only in areas where it can advance money easily and get back returns, but we believe that it is our duty to help the agriculturists in backward areas where the work is small, the returns are small and where the expenses may be great. We have been doing this kind of work for the Bhils in the Panchmahal district; we are losing money in this way, we do not grudge doing it. We thus help Government to obtain land revenue from these Bhils and have we not the right to get from Government some *quid pro quo* in other matters?

9338. So your point is that you lose money in some directions and if you are able to make money in this way, it would enable you to help them better in those directions—Naturally.

9339. The question of competition with others has no bearing and you would drop it.—I would drop it.

9340. *Mr. Ramdas Pantulu*: You ask for these facilities to be given to you and to be allowed to do this business in places where there are no branches of the Imperial Bank or joint stock banks in order to enable you to help the small men?—I do not want to take the advantage of the Remittance Transfer Receipts in the other places.

9341. You want to help a number of these small men who are agriculturists in order to give them the banking facilities in areas where there are no banking organisations and you think that in areas where the Imperial Bank or joint stock banks do not function, it would only be proper for the co-operative organisations to take up this work in order to benefit largely the small men, not necessarily members?—Yes, no other joint stock banks would go to such places; it would be too expensive for them.

9342. Do you think it would be a distinct service to the small men, both rural and urban, to have these facilities through your organisations?—Yes.

9343. *Sir Purshotamdas Thakurdas*: Therefore it is owing to the paucity of banking institutions in the country that you think these facilities should be extended to the co-operative institutions.

9344. First of all, your organisations which are numerous and spread all over the country are rendering a distinct service to the country in the matter of finding funds.—Yes.

Chairman: The point is that there is no ban at the present moment on their doing the work. If they do not attempt to take advantage of the concessional rate, it is their own fault.

9345. *Mr. Ramdas Pantulu*: In some places the Registrar has placed a ban on the societies doing this work, even if they pay for it. Some co-operators have asked that this facility should be given to them without having to pay for it. By this means they would ultimately be able to benefit the ryot by reducing their rate of interest. Therefore the rate at which you make your money available to agriculturists and the small traders would depend upon your resources?—Yes.

9346. If you are able to make additional income, you would be able to give a portion of your profits or reduce your rates of interest or afford other facilities. Thus the additional income would be ultimately transferred to the co-operators. The money which you make would not be locked up, but transmitted to the poor men in some form or other.—Yes.

9347. But whether this concession of free remittance is given to you or not, you want no ban to be placed on your doing this.—That is so.

9348. You also ask for it because your organisations are rendering a service and by the additional income you may get you would be rendering them further help.—Yes.

9349. *Dr. Hyder*: An additional reason in your view is that this concession of free remittance is on a par with the other concessions which have been given to you by the State in the public interest.—Quite.

9350. *Chairman*: Coming to this question of competition you are aware that at the present moment a great deal of this inland exchange business is done by the indigenous banker through hundis. If the concession of free R. T. R.'s were given to co-operative banks, would it not hit the business of indigenous bankers in regard to the *hundi* business?—I believe they have a sort of arrangement that inland *hundi* exchange business should be done at a certain rate; I believe at half an anna above the rate at which ordinary remittance business is done by joint stock banks. Our banks should be put on the same level as other banks. I understand that since we have begun to do this business, the exchange rates have gone down.

9351. Do you realize the difficulties which many of the members of this Committee feel in this particular matter? At least it would be difficult for us to recommend any concession which may operate prejudicially against any other banking institution, including the indigenous banks, who arrange for remittance by means of hundis. Would your Board kindly consider this question in all its aspects and let us have a memorandum indicating what precise concessions you want. You might in that memorandum also indicate whether there is at the present moment actually a ban on the issue of these inland remittances, even where the co-operative bank or society does not claim any concessional rate from Government.—I

shall consult my Board and put the whole matter in the form of a statement.

9352. *Mr. Ramdas Pantulu*: We have been told that when the financing of societies is taken up by these banks, they lock up so much of their funds that societies have to wait for loans indefinitely. We want that such kind of restrictions should not be laid down. That refers to a bad case in Nasik.

9353. *Chairman*: Therefore the danger to which I had referred in an earlier part of the examination does exist?—I was first speaking of my own bank. If there happens to be one bad bank, that cannot damn the whole movement.

9354. Therefore you would like to have some restrictions and safeguards put in.—Yes.

9355. *Sir Purshotamdas Thakurdas*: Would you kindly let us know for our guidance and information whether in the business you have till now done, you have had bad debts and if so, can you give us any figures?—I do not say we do not have bad debts. But is it right to ask a question like that?

9356. I am sorry you are taking exception to it. I was only seeking for information. We want to know whether there is any risk involved in it.—We shall include the bad debts also.

9357. *Mr. Lamond*: When they are considering this matter, they might go into the question of maximum rates. If free money is given, there should be a restriction on the charge.—We will bear that in mind.

9358. *Sir Purshotamdas Thakurdas*: At places where you do discount transfer of this nature, do you do it at the current market rate or is there a maximum rate at which it is done?—I shall give you the exchange income received by us, the exchange rates charged by us and the amount of business done by us at each centre.

9359. My question was a little different. Suppose at a place the exchange rate was 6 annas per cent. and you got your R. T. R. free. What would you charge?—It depends on the market rate.

9360. If that had been the system till now, where is the relief for the small middleman?—The rates would be brought down afterwards.

9361. But when you begin you charge the market rate.—We give them certain facilities, others would follow.

9362. What sort of facilities?—I believe we charge them lower rates.

9363. How much lower than the current rate?—$\frac{1}{2}$ to 1 anna per cent.

9364. If the current market rate is 4 annas, you charge them 3 annas per cent.—Yes.

9365. *Chairman*: You suggest that arrangements should be devised to enable agriculturists to get finance against their harvested crops by placing funds at the disposal of local co-operative banks out of the accumulated balances in sub-treasuries, on condition that the money would be lent to agriculturists on a stipulated margin of profit. Will you kindly state what in your opinion the margin should be and whether such an arrangement would result in a material advantage to the agriculturists as compared with the rates of interest now charged by co-operative banks?—After this memorandum was written, we have been considering this question

of the manner in which this work should be done. If we have funds of our own, we would do it. We have prepared a scheme which is at present going round the Board and I shall send it over to you when we have finished with it. We have taken up this matter seriously and the scheme contains all details.

9366. You were perfectly correct when you made the observation that if a scheme on sound lines could be produced you could introduce it with the money at your disposal?—If we have money, we would do it; if we have not, we want the sub-treasuries to help us.

9367. It has been stated that co-operative credit is still much too dear for the cultivator in almost all the provinces. Will you kindly give us your views on this question? Will you also tell us what the borrowing and lending rates are in your province and what can be done to bring down the lending rates?—The rates of the Provincial Co-operative Bank vary from 2 per cent. on the current account to 4½ per cent. for fixed deposits for one year; these are their borrowing rates.

9368. I am talking of the lending rates.—As regards lending rates, under the Secretary of State's agreement, we are to charge from 6 to 8 per cent. In old days it was thought that 1½ per cent. would suffice for the margin of the primary societies. In those days we had direct dealings with primary societies and the rate at which money was lent by primary societies to their members was 9 3/8, *i.e.*, 1½ pies per month. It worked out well. Later on some of the Registrars of Co-operative Societies thought that the rate was too low in view of the fact that the primary societies had to incur certain expenses, *e.g.*, in keeping a Secretary or in making recoveries, etc. Therefore they raised the rate of interest to 10½ and 11¼. Personally I would like the agriculturists to get the money not dearer than 9 3/8. I am only referring to my province, because in some parts of Gujerat which are the best parts, people get loans at 6 or 6½ per cent. That is one of the reasons why the movement has not spread in Gujerat as much as it has spread in other places. In that area, I would like to fix the rate at 9 3/8 as the maximum for agriculturists. In other places where the risk involved in getting recoveries may be larger, the rate might be a little higher, say 10½. I entirely agree that the advantage of the movement should reach the agriculturists and if your Committee could lay down any suggestion which would lead to this result, I am quite sure it would be welcomed not only by co-operators but by all friends of agriculturists.

9369. It would be difficult for our Committee to make any suggestion in that direction. We have gone through some of the Provincial Committees' reports and we find that the difference between the borrowing rate of the apex bank and the rate at which money is eventually lent to the ryot is rather on the high side. It is for the movement itself, whose primary object is to benefit the poor agriculturists, to secure a reduction in this difference.—Whatever I can do in this direction, I shall certainly do. I shall take up the matter with the Registrar and the Minister in Charge and try to find out a solution which would be acceptable to your Committee.

9370. Would you kindly inform us, if we have not finished our report by then, of the result of your action?—Ministers are now being changed and the new Minister in charge of Agriculture will have to learn the subject from us.

9371. Then so far as we are concerned, we can only look upon this statement of yours as a pious hope.—I do not know how long your Committee is going to continue

9372. Say up to about March next.—I hope to be able to send you some detailed proposals by that time.

9373. *Mr. Ramdas Pantulu*: I think you have answered the question about the inland exchange business fairly fully when the Chairman put question to you. May I know whether Mr. Apte has any special experience in regard to this matter at Poona?—(Mr. Apte)—The District central bank here and its branches are doing good work in this line.

9374. Mr. Macdonald of the Imperial Bank said that the co-operative banks have not got the necessary knowledge to do this kind of business Do you agree?—I cannot say generally. I can only speak about my provincial bank and its branches. (Mr. Apte)—We are doing this business and the remittance business at about 14 centres where we have branches and at almost all the places business is being done without any discrepancy. In one place we do the purchase and sale of bills also. Sometimes when we find that we cannot do this business both ways ourselves, we then send our money through the district and taluka treasuries and I think our business is well justified in doing this work in the interior. At present we have 13 agencies with headquarters at Poona. Our aim is to help these small agriculturists and sometimes we help the traders as well through our urban societies. (In that case we have got to discount the bills of merchants and traders.) Lately we are backing up small scale industries as well.

9375. So your view is that the staff of your bank is competent to do this work?—Yes, we have got well trained staff and some of them have had their training in joint stock banks.

9376. Have there been any cases of loss in this business?—No. All the working centres of the Provincial co-operative banks and the district banks and the urban societies taken together in our presidency amount to about 200. It is the policy of the co-operative department that we must have our branches in the interior to provide facilities and to tap the local resources.

9377. So your point is that the net-work of the co-operative credit movement reaches the interior much more than any other organisation?—Quite.

9378. May I know Sir Lalubhai, with regard to your province, why the Imperial Bank has declined to give you overdraft and cash credit facilities even on the security of Government paper?—As debentures have the first charge on the Banks' assets they do not want to take the responsibility.

9379. What does your debenture capital amount to?—About Rs. 10 lakhs. In Punjab, I am told, the position is well off.

9380. Can it not be done in similar manner in Bombay?—I think the legal position is in our favour.

9381. At what rate do you get accommodation on Government securities from other banks?—It all depends on circumstances. Some exchange banks advance money at the call rate. With other joint stock banks we get at about a quarter or half per cent. below the bank rate.

9382. So you have not got to pay more than the bank rate if you have to go to a joint stock bank?—No.

9383. Mr. Macdonald of the Imperial Bank said that the Imperial Bank was rather reluctant to extend any financial accommodation to co-operative banks for two main reasons. He said that the audit was defective and that the overdues of primary societies are mounting up. He said that these two are unhealthy signs and therefore he said that the Imperial Bank as the centre of the banking system of the country should not take too many risks. What have you got to say on that matter?—As regards the audit I believe the audit conducted by the Government or approved auditors of Government is quite good and more detailed than the audits conducted by auditors of joint stock banks. There is one thing. One cannot expect an auditor to be a land valuer also. In joint stock banks the auditors do not examine the assets of the parties who borrow loans. It must be left to the good sense of the directors. Here we depend on our management and trained staff. Barring that work I believe our auditing is sufficient and more detailed than the auditing of the joint stock banks done by chartered accountants or incorporated auditors and those who have got permanent unrestricted certificates.

9384. Are you talking of audit of the central banks or provincial banks?—I am talking of all banks. In our own bank we also have an audit by an incorporated accountant appointed by the shareholders. So in fact we have two audits one by the shareholders' auditor and another by the Government auditor.

9385. Therefore you are satisfied that the system of audit in the co-operative banks is satisfactory?—Yes.

9386. What about the overdues?—We are able to get back about 70 to 80 per cent. of our loans back every year. In the canal areas where we advance large sums of money on sugar-cane cultivation we have large amounts locked up because the price of gur suddenly dropped even to the pre-war level. We are trying our best to nurse these advances.

9387. I will ask you one thing: Do you know of any district co-operative bank or central bank that has failed on account of non-recoveries?—No, not in British India, but the failures of Burma banks may be due to that.—If in recent years there has been an increase in the overdues it is due to the fact that the prices have gone down and due to the agricultural conditions?—That is so. I am told that even cotton in canal areas will not be able to pay its agricultural expenses. In such cases we have to try to nurse them. I think all banks do it.

9388. 6 months' loans can become 3 years' loans by three or four extensions of the period at maturity in the case of the Imperial Bank of India or other banks, is it not?—That is true. They naturally extend the time.

9389. *Mr. Mukhtar Singh*: May I suggest that in the Report on Agricultural Credit in England there is a passage which shows how the overdues are quite natural in any concern which provides facilities for credit for an agriculturist. They have said "Agriculture, take the most difficult industry in the world, is at all times beset with risks from which other productive industries are relatively free and this element of risk makes the ordinary methods of forecasting earnings not applicable to farming". Therefore it is natural that the amount of over-dues would always be much greater. Is it not?—When loans are given we examine the various factors, such as the requirements of the borrower, the repaying capacity of the borrower and the general value of the assets on which we can rely in the

last instance. After taking all these factors into consideration we advance money. As a rule, except in canal areas we get 70 to 80 per cent. returns. I do not think in India there is any difficulty in making a forecast. The forecast may some time go wrong, but on the whole we try to make all humanly possible enquiries. After all you know it is a gamble in rain.

9390. My point was this. The amount of overdues has been objected to by the Governor of the Imperial Bank. I suggest that any institution which provides credit to agriculturist must show a higher amount of overdues because the industry itself is beset with so many risks. You might at the time of lending provide against everything, but the agriculturist cannot pay unless he gets a good crop, and if the industry itself is risky naturally the overdues are bound to occur?—They would in certain cases but if proper precautions are taken, overdues will not be so heavy. After all it is a question of taking precautions. If we want to do banking business we must adhere to banking principles.

9391. *Chairman*: Mr. Mukhtar Singh's point seems to be this. He read out from an English report something to indicate that the risks in the agricultural industry were higher than the risks in any other industry. From that he wanted to form the conclusion that that being so, naturally the possibility of outstandings in a bank which deals with agricultural credit must be higher than the risk of outstandings in the case of any other type of bank, and he wanted to know whether you would agree broadly with that impression?—A general proposition like that cannot be accepted.

9392. *Mr. Mukhtar Singh*: I will only add one thing more to that. Will you consider the outstanding overdues as an unsound foundation for the system of co-operative institutions?—It is very difficult for me to give a general impression on the movement. I cannot say what the extract which you read out aims at. Take the case of the premier industry in Bombay. Have not the banks lost money in mills. As regards agricultural risk it is divided between the primary societies and the central bank, and the risk to the central bank is much less.

9393. *Mr. Ramdas Pantulu*: Though the overdues have mounted up the debts themselves are not unsound?—In most cases, they are not.

9394. With reference to this, the Chairman put a question to Mr. Macdonald that the unlimited liability of these societies is a sufficient factor in judging the soundness of these societies and the answer of Mr. Macdonald was that the unlimited liability was a *snare*?—I think he had no right to make that remark; he would not have done so if he had studied the co-operative movement with all its implications as we have done. We have been in the movement for over 25 years now and we know more about this movement than people outside the movement. Men who know most about the Imperial Bank may know little about the co-operative banks. Snare is very strong word to use. The public will not realise the fact that the Imperial Bank Governor is saying so out of ignorance of the co-operative movement. They will actually condemn the co-operative movement believing the words of the Managing Governor of the Imperial Bank.

Chairman: If the word occurs in Mr. Macdonald's evidence, then I am afraid it must stand.

9395. *Mr. Ramdas Pantulu*: In any case, you do not consider it a snare?—No, certainly not. I would have used a stronger expression to rebut that statement if I were allowed to do so.

9396. You know that most of the members of the co-operative societies do understand the principle of unlimited liability?—Yes, most of them do, although they may not fully realise its full implications.

9397. Do you agree with that view of Mr. Macdonald that the success of the co-operative movement is mostly due to the fact that people think that Government is behind the movement?—That might have been true some 20 years ago but is certainly not true to-day.

9398. Do you agree with Mr. Macdonald's view that Government is behind the co-operative movement?—No, the Government is not behind us at all.

9399. At any rate is it the impression of the people that Government is behind the movement?—That might have been 20 years ago.

9400. Do you know anything of the Burma Bank?—Do you want the whole history of that case?

9401. Just in brief outline.—It was started on wrong principles. The then Registrar who was considered to be a very good co-operator and expert laid down lines which were entirely unbusinesslike. When I made enquiries, I was told that the borrowing rates for deposits were fixed by the Registrar, that the amount to be borrowed was also fixed by the Registrar, the lending rates were also fixed by him, the amount of the loan was also fixed by him. Naturally therefore if people make such mistakes they have to suffer. Mr. Calvert, who is decidedly the best official co-operator in the country has treated this case so well that I would request all members of the Committee to read his minute and see how he views the present difficult position of the Burma Bank.

9402. And the Burma co-operative business was mostly under official control?—Not mostly, but entirely.

9403. With regard to the Transfer Remittance facilities the Imperial Bank Managing Governor says that the concession is liable to be abused and he is in favour of scrapping it altogether. Have there been, to your knowledge, any instances in Bombay where this concession was abused?—As I told the Chairman, I am prepared to show all our accounts to any one who wants to satisfy himself that we have not abused any of these facilities.

Has the Currency Commission said anything about Remittance facilities?

Chairman: The Currency Commission said nothing specific with regard to remittances.

9404. *Mr. Ramdas Pantulu*: When you ask for these facilities for the co-operative banks, are you asking for them on behalf of the agriculturists who play such an important part in the economic life of the country?—We feel that we have a claim on the Government as we help them to get land revenue much more speedily.

9405. *Mr. Devadhar*: While on this question of facilities and concessions, is the special assistance claimed by the co-operative movement more or less on the same ground on which some facilities are given to the Imperial Bank by Government?—I have already said that while the Imperial Bank help the Government in one way, we help them in another.

Chairman: In the case of the Imperial Bank, it is not a recognition of services; it is part of a definite agreement. It is one of the items of what I may call *quid pro quo*.

9406. *Mr. Devadhar*: In answer to Chairman's question while trying to define the scope of the word 'bank' your intention is not to claim any special privileges?—Of course not. It should be able to command the confidence of the public as a bank and should be able to carry on the duties of a bank efficiently.

9407. While on the question of defects in the working of the co-operative movement, on which our Chairman put certain questions to you and with regard to which Dr. Hyder pointed out the particular chapter in the report of the Royal Commission on Agriculture, would you be able to tell us whether the policy of the provincial banks of starting branches has really proved helpful in the direction of removing those defects?—There are two opinions on this subject held by two different schools of thought. I thought that this subject was sufficiently discussed by the Provincial Committees. We believe that there should be branches of the provincial banks because we want our branches to be in direct touch with the borrowers and other customers whose wants and needs we can study and try to meet. The chief advantage is that it not only gives our clients adequate finance but it gives them the financial assistance that they require immediately and on the spot. It also enables us to look after all the societies working under the various branches; we can cater for their needs on the spot, and business on the whole is conducted much better.

9408. Therefore I think you will be in a position to tell us whether it has brought down the overdues?—Yes, that has been the experience.

9409. On page 449 and in paragraph 373 of their report the Royal Commission on Agriculture say, "In Berar, where conditions of agriculture as well as of land tenure are very different from those in the Central Provinces proper, the state of the movement is more satisfactory. In the United Provinces, where the condition of a large number of societies gave cause for anxiety, a committee known as the Oakden Committee, was appointed in 1925 ....." You said that the Maclagan Committee and the Royal Commission on Agriculture had certain cases before them. Do you think that the question of defects affects the Bombay Presidency just as it affects other provinces?—I am expressing my personal opinion that the land revenue tenure of Madras, Berar, Punjab, etc., is in a much better position than that in other provinces. In Bombay it is the Ryotwari system; I believe in the Ryotwari system and I stand by it.

9410. While on this question of defects, it was suggested to you that in certain countries in Europe, certain privileges are claimed after a statutory standard is attained by the co-operative movement; and if we were to examine the standards attained by people in those countries in regard to education and intelligence and compared them to the standards obtaining in this country, shall we be justified in applying the same standard?—May I reply in the words of Lord Morley who once said, "The fur coat of Canada may not suit India."

9411. But in judging of the defects of the movement shall we not have to take into account the low standards in our country regarding education, intelligence, backwardness of the people, etc.?—I have no doubt that this

Committee will take into consideration all these things. The general backwardness of the people of this country is a factor which must be taken into account.

9412. If you really think that a higher standard of education is required for working the co-operative movement in India and bringing it to those stages which have been attained by other countries, it will mean a much larger propaganda in education. For that purpose you will require some kind of State aid or you would require some more contribution from co-operative institutions than is available at present?—Undoubtedly.

9413. Therefore if it is possible to spare any money whether that money comes from Government or whether that money is found by the co-operative institutions, you think that it should be spent for the furtherance of education which will be the ultimate measure of removing the existing defects?—Yes.

9414. You agree that these defects ought to be removed?—Everybody agrees.

9415. If any assistance is claimed to achieve the same object, that is more or less for the removal of those defects, you would favour the idea?—It would certainly be helpful.

9416. With regard to question 9278, certain profits are distributed and you mentioned to our Chairman that they were equally distributed. May I take it that it is a sort of encouragement to good management?—We have to divide one-half into all categories, good, bad and indifferent. A proposal was made to the Registrar, Co-operative Societies in Bombay, to enable us to modify that agreement by which we could pay larger rebates to the well-managed societies. The idea was not approved as it was found that the provincial co-operative banks wanted to make money.

9417. But the general principle of giving encouragement to good and well-managed societies is practised by some co-operative banks?—Yes, that is the practice.

9418. *Chairman*: I think in answer to me you said that you follow the same principle as the Provincial Bank, *i.e.*, having got a certain sum of money from the Provincial Bank as rebate, you distribute it to your borrowing societies also on the same *pro rata* basis.—(Mr. Apte) There are two different ways. In one case money is specifically brought from the Provincial Bank for being advanced to certain societies; in that case the money coming by way of rebate from the Provincial Bank is immediately transferred to the societies to which the financing is done. In the case of finances made out of our own capital, we follow our own system.

9419. That does not arise out of my question to you?—No.

9420. *Mr. Mukhtar Singh*: District banks take money from provincial banks and then advance to societies and there is some money already in the district banks which is also advanced to co-operative societies. Do you get rebate on the amount that the district banks advance or only on the money that is advanced by the provincial banks?—A rebate is allowed to societies which are financed out of the capital of district central banks; another kind of rebate is on account of the provincial bank advancing to district banks and this kind of rebate is transferred to societies as I have already stated.

9421. So the ultimate borrower gets the rebate: it does not matter whether he gets the money from the district bank or the provincial bank.—He gets it in two different ways.

9422. *Chairman*: In one case it depends on the prompt payment of the loans taken and that is what you are now referring to, which really is indirectly connected with good management.—Yes.

In regard to the rebate which the central bank receives from the provincial bank and passes on to its constituent societies, it is a *pro rata* distribution. But the central bank also allows rebates in connection with the prompt payment of advances taken from them and that therefore is indirectly connected with what may be said to be good management.

9423. *Mr. Devadhar*: We had a general discussion with regard to the character of the work of co-operative institutions and the criticism about the unfair competition is there. Could you tell me whether there is anything in common between the transactions of co-operative banks and those of other indigenous banks?—They are quite different.

9424. I should like to know whether you would say that co-operation is not a social service.—Yes, and it is partly moral also, I would lay more stress on the moral side of it.

9425. You would not like to say it is profiteering?—No.

9426. Do you not find a large number of honorary workers there?—I hope I am also one of them and you.

9427. Gradually the principle of self-help with regard to capital is being recognised?—Yes.

9428. I would even go further and say that there are certain primary societies I came across recently in one taluka in the Nasik district which were not dependent even for a single pie on a bank.—There are some societies like that. I gave 40 per cent. as an average.

9429. Therefore if any money is saved by any concession of financial help it goes to build up the reserve fund of the co-operative societies?—Yes.

9430. In the case of other joint stock banks it goes to build up their own reserve fund which has a great effect on the dividend?—Yes.

9431. Would you agree that co-operative institutions stand on a different footing altogether from joint stock banks. Joint stock banks have their own sphere and are rendering their service, but co-operative institutions are on a different footing and are rendering some kind of service in a different sphere, so that there is very little that is common between them?—Yes.

9432. If any money is saved from any assistance secured for the service that is being rendered or that may be recognised, it goes to swell the reserve fund of the co-operative institutions which ultimately enables the members of such institutions to get money at cheaper rates of interest?—You are taking it too far. In the case of primary societies the extent of the reserve fund is very seldom taken into consideration in fixing the rate of interest, but it is taken into account at the time of loans, because in the case of primary societies the reserve fund is very small. It would not amount to more than Rs. 200.

9433. In some societies you have a reserve of Rs. 50,000 or Rs. 60,000?—That is an exception.

9434. That would enable the societies to bring down the rate of interest. If a big joint stock bank had a large reserve, it would make money on it and raise the rate of dividend. Therefore the one reduces the burden and the other increases the facilities or profits?—But they are in contrast with one another. You cannot compare the co-operative banks and joint stock banks.

9435. Therefore we do not have competition between these institutions? —Academically I agree that there cannot be any competition between two dissimilar institutions.

9436. If that be the case, why should any co-operator agree to having half the concession if it is no concession at all?—I am a businessman and, if I cannot get the whole, I am satisfied with half.

9437. If Government were to give this concession and say that all the money should be utilised for co-operative education, would you accept it?—I am prepared to accept it.

9438. It was suggested that one of the difficulties in the way of spreading the banking net-work was, the lack of intelligently trained men in the B.A.'s and B.Com.'s.—Formerly we had a special arrangement to take probationers and it worked very well.

9439. Therefore in the matter of co-operative training the Bombay Presidency took the lead by taking probationers as far back as 1916.—It was Mr. Devadhar's idea really, but the Punjab has now gone far ahead of us.

9440. In the matter of recognising the need for such training, I think we were quite wide awake and a beginning was made in the year 1915 or 1916.—Somewhere there.

9441. With regard to the question of postal cash certificates, supposing it were decided that all proceeds from this source were to be made available for financing rural agriculture for which there is great need, do you think people would be patriotically inclined to invest money for such a purpose?—Speaking on my own behalf, I think the country is getting poorer and that is why we cannot count upon large investments on patriotic ground.

9442. So far as the question of rural agricultural organisations is concerned, there are a number of items for which large amounts of money would be necessary and the work that is at present being done by co-operative banks and institutions has not even touched the fringe of the problem.—We have done more than touching the fringe of the problem.

9443. You would agree that a very large amount of work still remains to be done. If we give the general public to understand that all monies deposited in the savings bank or the postal certificates would be utilised for such purposes, do you think it would serve any useful purpose?—I have already said that we have at present sufficient money in our own hands.

9444. *Chairman*: Mr. Devadhar is very anxious that the co-operative movement should get assistance from Government in various directions. I do not in any way at the present moment dispute the need for assistance.

But if it is to be given, would it not be better that it should be given directly, particularly in view of the fact that the assistance required would be different in different provinces owing to the different stages of progress of the movement, so that the tax-payer of a particular province would be able to give the assistance with his eyes open?—We have asked for help in two matters, one is income-tax. I take it that the Committee have agreed that super-tax should not be charged.

9445. I have not said anything of the kind.—We have asked for help in respect of income-tax and Remittance Transfer Receipts. They are both Government of India subjects.

9446. That is the worst of it. If they are Government of India subjects, under the form of constitution as at present stands, indirect assistance to a transferred provincial subject may not be given. The Auditor-General to the best of my recollection, has held that such help cannot be given. Therefore any assistance to be given, which may be of varying degree in different provinces should be in the form of direct assistance to be voted by the legislature of the particular province.—I can understand that as regards income-tax a money grant would serve the purpose. But in the case of R. T. R.'s it is not so much the money that matters or the saving in exchange expenses. We really want to help the small trader and small businessman to take advantage of these facilities.

9447. That is a different aspect altogether; in fact you mentioned that before and that is the reason why I did not put the question. But since Mr. Devadhar has now raised the question of the desirability from the broader point of view of Government assisting the movement, while I probably would not object to assistance being given, there is this troublesome question of diverting for provincial expenditure the sources of central taxation and so far as I know, it has been held by the audit authorities that this is not permissible under the present constitution.—I see the difficulty. As regards income-tax, I am prepared to accept that the matter should be left with the Provincial Governments, because co-operation is a provincial transferred subject and we shall approach the Provincial Governments if the Government of India cannot make a uniform rule for all. But as regards the other, I want Government to give us those facilities.

9448. *Mr. Mukhtar Singh*: As a co-operator, would you agree with the remark made by the Royal Commission on Agriculture that if co-operation fails, there fails the last hope of the agriculturist.—I entirely agree.

9449. You said that in the United Provinces as long as the land tenure system remains, there is no possibility of the success of co-operative societies.—I never said that; you put into my mouth words which I never uttered. I said you were doing the best under the circumstances and I strongly criticised the Oakden Committee's Report. I have given my reasons for doing so. Here the movement is succeeding, because the ryot gets the money, uses it and gets all the advantage out of it; while in a talukdari or zamindari he fears that the profits may not remain with him. I do not want to decry any other province and say that that province is better or Bombay or the Punjab is better. I want to co-operate with all. I merely made a statement of facts.

9450. I take it from this that you agree that unless a cultivator is made a peasant proprietor there would be very little hope for him to succeed.—

Both as a co-operator and a student of economics I agree. I wish I could do away with the zamindari in all provinces.

9451. Would you then agree that there is necessity for passing a Small Holdings Act as other countries have done?—I see the necessity for having tenancy Acts.

9452. Would you like the idea of providing credit facilities for the cultivators of those places where they are living as tenants to purchase land in that province?—That is a very much larger question. At the Registrars' Conference held at Bombay in 1926 this question of starting land mortgage banks was discussed. I was one of the members of the sub-committee for drafting regulations and when the question of advancing money from land mortgage banks came up, I strongly objected to money being used for purchasing land. I am referring to my own province and I said that this would lead to speculation and I did not want it done. Both Messrs. Calvert and Darling of the Punjab said that they were not in favour of agriculturists buying large lands. But supposing a man had a land here and a land there and he could not obtain the middle portion of it to enable him to cultivate the whole plot, I said I would not object to his buying that portion and we have laid down that except for the improvement of land, land mortgage banks should not make advances. But if all tenants are to be paid money to buy off their landlords, it is not a feasible proposition and I am not prepared to give an opinion off hand. I would like tenants to be peasant proprietors, but how it is to be done would be for local Governments or the Government of India to decide. I do not think it will come even before the Banking Committee. It is not a banking question in this form: other countries which are mainly dependent on agriculture or which like to help the agriculturists provide money for the purchase of small holdings and to make the cultivators peasant proprietors. Take the case of Germany or Denmark.

Chairman: If the Government of India decide as a policy that this should be done, it would mean, as in the case of Germany, raising large sums of loans in the market and then using the same for this purpose. It is not a banking problem.

Mr. Manu Subedar: You have to provide money.

Chairman: That is, you have to raise loans. Providing banking facilities does not necessarily mean providing capital for a particular purpose. In that case, the question of mere extensions would immediately become a banking problem.

Mr. Mukhtar Singh: If a land mortgage bank is started and it provides money for the purchase of land for the cultivator and the cultivator himself provides, say, half the money, would you not consider it to be a banking problem?

Chairman: The question of providing land mortgage banks from that point of view is a banking problem, but to what extent it should operate or give facilities to agriculturists buying the land immediately becomes a big general question of policy. We are here only to make definite recommendations about credit facilities; the other things may be mentioned incidentally. Thereafter the question of general policy is one for Government to decide.

Mr. Manu Subedar: Can we not even recommend that it would be a sound problem for land mortgage banks to advance money to the cultivator purchasing the land that he cultivates, if he provides a certain amount of money from his own funds and that he should repay the amount in so many years?

Mr. Mukhtar Singh: It would be a point of order for you to decide, Mr. Chairman. You may object to it on the ground that it is not a possibility and the proposition is not a sound one, but there is no question of its being a banking problem.

Chairman: It is a matter which we can discuss among ourselves. The witness has said that it is not a matter on which he can give an opinion on behalf of his bank. He said that he would not even venture a personal opinion. Whatever he has said is on record and he doubts if it is a banking problem. I can give a ruling on it when a specific point is raised when we discuss the matter among ourselves.

9453. *Mr. Mukhtar Singh*: Is it a fact that no share capital is provided for primary societies in Bombay?—We followed the old principles.

9454. *Mr. Ramdas Pantulu*: Of late you have been receiving share capital?—Yes.

9455. *Mr. Manu Subedar*: Do you consider that share capital is better or the old method is better?—I hold strong views on my own behalf and I believe in the Raiffeisen method.

9456. You feel that without share capital it is possible to work these societies successfully?—Yes, but lately instead of share capital we have what is called "Members compulsory fixed deposits", the only difference between the two being that dividend on shares can be paid if there is sufficient profit, but in the case of deposits interest has to be calculated when preparing profit and loss statements.

9457. Do you get a sufficient amount of deposits in the case of primary societies?—I think I have said that about 40 per cent. of the capital represent members' own deposits.

9458. *Mr. Mukhtar Singh*: It has been reported by some of the provincial committees that it is very difficult for a co-operative society to advance money at the proper time to its members?—In olden days before the co-operative movement had been fairly well established it might have been so, but we have now made arrangements to provide both adequate and immediate finance. But in some cases where we are not satisfied with the security offered, then there might be some delay.

9459. You have a number of co-operative sale societies in your province?—Yes.

9460. The Bombay Provincial Banking Enquiry Committee in their report say "It must be remembered that the question of sale is closely connected with the question of finance during cultivation, and unless and until the co-operative organisation is in a position to meet all the needs of its members adequately and promptly, we think it would not be fair to insist on compulsion". Do you agree with that view?—Yes, I agree with that view. We want sale societies to be distinct from the credit societies. The view of the Bombay Committee is that in view of the fact that full finance may not have been given by a co-operative society, it would be unfair to insist on compulsion on members of sale societies to bring their

produce to those societies. I entirely agree with that view. Unless co-operative societies are able to finance fully all the requirements of the agriculturist in the production of his produce, the man should be at liberty to warehouse his produce at the best market. I think the provincial committee's recommendations are very sound.

9461. *Chairman*: All that the Bombay Committee say is that until the cooperative organisation is adequate enough to meet all the needs of the agriculturists it should not tie the hands of the members of sale societies. There is a co-operative credit society and side by side there is a sale society. What the Bombay Committee say is that these societies are not in a position to meet all the needs of the members and until that position is reached a member should not be compelled to take all his produce to a sale society.—That is the position.

9462. *Mr. Mukhtar Singh*: If you agree to that what method would you suggest for the co-ordination of these two societies?—If the credit societies finance for the production of the produce and as soon as the marketing stage is reached the sale societies take up the work, then there will be sufficient co-ordination.

9463. Then the difficulty will arise as the work of propaganda will belong to neither?—(Mr. Apte)—Why, the district central bank will do the propaganda part of it. We have got our inspecting staff which is in touch with the credit and the non-credit agencies of the co-operative movement.

9464. As it is you do not compel members of credit societies to send their produce to the sale societies?—As such we do not insist.

9465. Do the inspecting staff or the authorities of the district bank try to find out whether their members are provided with sufficient finance?—Yes, the inspecting staff is able to find that out.

9446. *Chairman*: I think there is an impression or misapprehension in regard to this matter. You provide accommodation to a member of a credit society to meet his agricultural and other current expenses?—Yes.

9467. Do you give them accommodation to pay off their old debts?—Yes, we do in special cases.

Therefore these are two separate things. Under the existing circumstances of the co-operative movement it is almost an impossibility to give adequate accommodation for the latter purpose.

Mr. Mukhtar Singh: My point is that the jute societies' failure in Bengal was due to the fact that the cultivators mostly got their finances from the *mahajans* and were therefore liable to sell their produce through their *mahajans* and not through the sale societies.

Chairman: I am not prepared to admit that point. It is perfectly true that in no province, not even in the Punjab, is the co-operative credit society in a position to meet all the needs of its members, although in several provinces including the Punjab, Bombay and possibly Madras they are able to meet the current requirements of cultivation of the agriculturists who are members of these credit societies.

9468. *Mr. Mukhtar Singh*: If the co-operative societies be given the same sort of charge on crop produce as is provided for in the Agricultural Credits Act 1928 of England, will that not help the agriculturist to bring his crop to the sale societies?—It will keep the agriculturist under better control of these sale societies.

9469. In that case the agriculturist will bring his crop to the sale societies?—Yes, if he is a member of the sale society.

9470. Do the jails and the Army purchase their requirements from these co-operative sale societies?—Their purchases are all made through open tenders. Although we have tried to interest the jails in this matter, we have found it difficult to compete with local merchants in this matter.

9471. *Sir Hugh Cocke*: Regarding your Bombay Provincial Co-operative Bank's balance sheet, I see you have made a profit in March 1929, Rs. 1,29,000 in round figures. Is that after providing for the depreciation in investments which is referred to in the report?—It was so in 1929 but in 1930 out of Rs. 1,54,000 we made a provision for Rs. 94,000 and whatever provision that was made in 1929 was not shown as individual item.

9472. What about bad debts?—As regards the agricultural societies we have not made any losses. As regards urban societies on the recommendation of the Registrar we lent to an Anglo-Indian stores and we lost some money in that direction. We may lose money also in the case of one or two produce societies but we have made a sufficient provision for all bad and doubtful debts that we know of.

9473. Speaking generally it is the primary societies that make the losses rather than the provincial bank. Is that not so?—As a rule it is so.

9474. In the same balance sheet for 1929 March after the item cash credits, you say "this includes amounts due from cancelled societies". Will that be a bad debt?—They are societies still in liquidation and we expect to get back all the money.

9475. I notice in the balance sheet under resources out of Rs. 181 lakhs, Rs. 104 lakhs is shown as cash with banks which means that you are using far more than half of your total resources in investments with other banks? —In this particular balance sheet it was an exceptional position, but the case is different in 1930 balance sheet. Deposits with approved banks were Rs. 13 lakhs and investment in Government securities was Rs. 44 lakhs. It is on the previous years' balance sheets figures that people have said very often that we have no business to ask for any further advances from Government. Our balance sheet for 1929 has created that impression.

9476. Have you ever been short of the necessary finance to advance all that has been asked of you by co-operative societies?—Primary societies never made appeals to us in vain except in the case of those who are hopelessly in debt.

9477. That being so why is it you consider Government ought to come to your rescue?—I want them to help us for the future development of the movement.

9478. If rural postal cash certificates were introduced as against urban postal cash certificates do you think it will be able to attract the savings of the cultivators in the rural areas?—I think it is a good suggestion.

9479. *Chairman*: If this was done would it tend to reduce the deposits in the co-operative banks and societies?—So long as the money thus raised is ear-marked for the relief of the agriculturists in the rural areas I do not mind whether the money is spent through my bank or not.

9480. So long as the deposits in your bank increase does it not tend to improve the prestige of the bank? On the other hand if Government takes the money from these rural areas and then make a loan to your bank that

does not in the same way improve the status of your bank?—If Government do not offer competing rates of interest I do not mind.

9481. *Mr. Manu Subedar*: With regard to the Remittance question, there is a proposal before us by which the cost of internal remittance would be done away with.—It would be an ideal thing if it were done so.

9482. If therefore the cost of remittance was done away with altogether and the facilities which the Imperial Bank is now enjoying and which you claim the co-operative banks have a right to enjoy, were freely allowed by Government to every body on condition that they were passed on to the public, you would favour that ideal?—What do you mean by 'everybody'.

9483. Supposing there is a joint stock bank in a certain place and another somewhere else, the manager in charge of a branch in one place will be free to send his money to every other place. Nobody would thus make any money out of the transaction; the facilities would go to the prime user?—Are you quite sure that the facilities will be transferred to the prime user?

9484. It is an ideal which has been put before you?—As an ideal I am in favour of it.

9485. You said that you wanted this facility as a money-making proposition; whether you want to oblige your small trader is a question of right.—My point is that the Government should treat us on the same lines as they treat the Imperial Bank.

9486. *Chairman*: I thought that in answer to a question of mine you said that you wanted this concession not to provide an increase in the profits of the co-operative institutions but simply for the benefit of their customers?—Quite right; if Government were to lay down that condition for us, I want them to lay down the same condition for other banks.

9487. *Mr. Manu Subedar*: If these facilities are not extended to other constituents, would you stipulate that you would not make more than a certain charge? You receive a privilege and as a matter of public service if you are asked to give the same concessions to your constituents, you would be quite willing?—Yes, if our self-respect is kept up.

4988. I would like to know whether your bank does the audit of the primary societies to whom money is lent out?—It is done by Government auditors; we get the audit memos. from the Government auditors.

9489. I put it to you whether you think that in the matter of rediscounting your co-operative paper, the Imperial Bank now and the Reserve Bank when it is established, should have the right to pick and choose what paper they would like to discount?—Of course they must have the right to do so.

9490. Do you rediscount your paper with the Imperial Bank?—The Imperial Bank have choked us off both as regards the Government securities and the agricultural paper.

9491. But you would give the Reserve Bank the power to select the paper?—Certainly they would have every right to do so.

9492. Do you agree that the borrowings of Government in large volumes and at heavier rates in recent years have diverted funds which would otherwise have gone into trade and industry?—I have come here as an agriculturist.

9493. I simply want to know whether you think that if Government had continued to borrow on the same scale as before and if they had not offered very heavy rates, the depression through which the country has been passing would have been lighter?—I quite agree that more money would have come to the industries.

9494. Would you ask the Reserve Bank, when it is established, to take over the whole of the savings bank money and retain it not as part of Government account but as a separate account to be used as the funds of the Reserve Bank, so that the Bank could feed the general money market and bring down the rates? Would you prefer such a system?—*Prima facie* it seems a very good suggestion.

9495. I see from the report of the Provincial co-operative banks that you are paying 4 and 4½ per cent. on your deposits. How do these rates compare with the rates given by the Imperial Bank and the exchange banks?—The Imperial Bank gives lower rates while the exchange banks give higher rates; we offer 4½ per cent.

9496. How would you like the suggestion that foreign banks should be prohibited from taking deposits in this country with a view partly to protecting the depositors and partly to favouring those foreign institutions which register themselves under the law of this country and become Indian?—It raises a much larger question such as the question of protection. In this case also the question of the consumer, namely, the borrower in this case, will be pitted up against your proposal.

9497. It is not my proposal; it is a proposal which has emanated from discussions before this Committee.—Then it might be put forward that the exchange banks have been rendering service to this country. What right have you to withdraw the concessions they have been enjoying? I certainly want Indian indigenous banking to be encouraged by all possible means. But how that should be done is a question I would leave to this Committee to decide.

9498. You would then as a businessman say that there was no objection, as part of the national policy, to prevent foreign banks from operating in this country with full rights including rights to take deposits?—I would like my country to be self-contained as regards industries, insurance, banking, shipping, etc.

9499. Would you like this Committee to suggest such measures as would ensure the achievement of these objects?—As an Indian I would be most grateful if this Committee undertook that.

9500. *Chairman*: You said that the country was generally getting poorer but still from what Sir Hugh Cocke brought out, it appears that you are getting deposits and that you cannot use those deposits to the advantage of the agriculturist, at least at the present moment; is it possible for you in any way to reconcile these two facts?—Unfortunately the Government of my Bombay Presidency is not helping the expansion of the movement. If my Government had been moving like some other local Governments, for instance, Punjab, this question of funds lying idle would never have arisen.

THIRTY-SECOND DAY

Wednesday, the 15th October 1930.

PRESENT:

Sir BHUPENDRA NATH MITRA, K.C.S.I., K.C.I.E., C.B.E. (*Chairman*).

Mr. MANU SUBEDAR.	Mr. V. RAMDAS PANTULU.
Sir HUGH COCKE, KT.	Mr. R. W. BUCKLEY.
Dr. L. K. HYDER.	Choudhri MUKHTAR SINGH.

Mr. V. K. ARAVAMUDHA AYANGAR, M.A., C.I.E. (*Secretary*).
Mr. R. P. MASANI, M.A. (*Joint Secretary*).

Mr. B. Mukherjee, M.A., P.R.S., F.E.S., Reader in Economics and Sociology in the **University of Lucknow,** was examined.

9501. *Chairman*: You are Reader in Economics and Sociology at the Lucknow University?—Yes.

9502. In that capacity you have made a theoretical study of matters connected with banking which are dealt with in your memorandum?—Yes, only theoretical study. I must say that I have no practical experience of any bank, nor of any industries. As a teacher, I have to do the theoretical portion of it.

9503. You say: "It is undeniable that the ordinary commercial banks have not served the industrial needs of the country. They have not financed industries largely. They cannot possibly do it, having regard to the nature of their own business and the needs of the industries." Are you aware that commercial banks, as well as the Imperial Bank, do finance industrial concerns largely in regard to their working capital when adequate security is forthcoming?—To a certain extent, yes. But the extent to which the Imperial Bank and other banks finance industries must be very limited, considering the size of India and the extent and magnitude of our industrial needs.

9504. Have you any information on that point or is it purely your impression?—I have no practical knowledge.

9505. Nor any statistics?—No.

9506. In the course of evidence given before us we have heard a good deal on the subject and we have gathered that wherever the bank considers it a sound proposition to make advances for working capital and where adequate security is forthcoming, it never hesitates to do so—I agree that where adequate security is forthcoming commercial banks are prepared to lend money. But commercial banks chiefly supply short-term capital; they do not supply adequate finance which is meant to be locked up for a long period. Secondly, the Imperial Bank is not permitted to lend for more than six months and the industries which are in need of money naturally want it for a longer period than that.

9507. I am referring to working capital only. Though there is the six months' rule, the advances given for six months can be renewed at the end of six months for another six months and we have gathered that there

are cases where, if adequate security has been forthcoming, the Imperial Bank has renewed advances given for working capital for no less a period than 15 years?—I did not know that, it is a surprise to me. For what industries were such advances made?

9508. The Imperial Bank gave us a list of the various classes of industries which they have been financing. I do not mind showing you that list (the witness was shown the list)?—If the Imperial Bank is doing it, all I can say is that it must be doing it since the Indian Industrial Commission's report was published.

9509. The Imperial Bank came into existence in 1921?—I cannot offer you an opinion until I know whether these industries financed by the Imperial Bank were Indian industries or not.

9510. They are mostly Indian industries and the particular case I was referring to in which the bank renewed the advance for 15 years was a big industry?—I never knew that the Imperial Bank was financing so many Indian industries.

9511. It is only a question of adequate security. If there is no adequate security, it is not a sound business proposition. For the purpose of developing industries the State may spend the taxpayers' money even if adequate security is not forthcoming and perhaps lose the money, but that is a quite different proposition?—What is the adequate security which most of these industries can offer?

9512. After a certain stage they can mortgage the goods manufactured and get on that some advance from banks which would provide them with the working capital. There are additions to block, extensions, replacements, etc., and in regard to these, though the Imperial Bank cannot take them up, other joint stock banks can?—Have they fully done it?

9513. One banker told us that he was doing it very frequently. It is a question of security?—The security which most of the small Indian industries can afford to offer is not a security which these banks would generally accept.

9514. Therefore it is not good security. If it is not good security, it ceases to be a banking proposition?—I cannot say that it is not good security; that after all is a matter for expert opinion. The bank is of course the best judge. But there is a complaint that Indian industries do not get that amount of consideration from commercial banks which they are entitled to get.

9515. That is merely your impression and you have read it from papers or heard it from people. Can you give us a single case in which an industry run by an Indian concern has failed to receive accommodation from a bank though it was prepared to produce adequate security?—I cannot give you a specific instance, because I am not connected with any industry or bank. All I know is what I have read from papers.

9516. *Mr. Ramdas Pantulu*: By saying that commercial banks have not financed industries largely, you emphasise the word *largely* and you do not deny that they do finance industries. What do you mean by 'largely'?—My idea was that some of the banks were financing industries but not to the extent necessary, considering the size of India and the magnitude of her wants. I did not know that the Imperial Bank was financing industries. There was no possibility of getting this information and but for the Banking Committee, the information would not have come out,

9517. *Mr. Mukhtar Singh*: Do you consider that banks would advance money on the security of block capital, buildings, etc.?—An industrial bank may do it, not the commercial banks. Commercial banks must work on the basis of certain recognised principles necessary for financial prudence, and they deal chiefly with short-term capital.

9518. Would it be possible for industries to offer any other security when they are in the infancy stage?—Yes, provided they have good prospects and a reasonable proposition behind them, which an Industrial bank can consider satisfactory.

9519. No industrial bank is yet established and commercial banks are not giving accommodation on block?—I cannot suggest that commercial banks should lend money on block.

9520. They are not doing it. If they are not doing it, do you consider that it is possible for industries to succeed? Would it be possible for them to get finance elsewhere?—It would be very difficult.

9521. *Chairman*: We understood from other people that if security were available, there would not be much difficulty in obtaining money from joint stock banks. I was trying to find out from you whether you had any information to place before us to the contrary. You said you have no information and all you have said is based on impressions?—And from a study of the papers.

9522. You further state that "the financial facilities which our industries need and which they now so greatly lack can best be provided by industrial banks alone" and you refer in this connection to the recommendation of the Industrial Commission of 1918. You are aware that the main function assigned to the industrial bank recommended by that Commission was the financing of small and middle class industrialists, particularly in regard to the provision of working capital. Are your ideas about the functions of the industrial bank proposed by you similar to those of the Commission?—I would go a little further. The Industrial Commission specifically mentions small and middle class industrialists. I would leave it to the discretion of the industrial bank which might be established and would not lay down a hard and fast rule of limiting the size of the industry and say that this is the limit up to which the industrial bank can go and no further. I would say generally that the industrial bank should finance not merely the small industries which the Industrial Commission thought of, but even bigger ones.

9523. Therefore you would impose no limitation?—No.

9524. *Mr. Ramdas Pantulu*: In your memorandum you say "the vital point is that the assistance to be given to the industries must be for a definite period only until they are sufficiently stabilised and are able to command capital and credit in the ordinary way from the money market." The implication of that sentence is that you would exclude well-established industries such as cotton and jute, which are already financed and are working, from the operation of the industrial bank?—I never meant that. Supposing a new cotton mill is started, that would be a new industry. My point is that we cannot adopt as a principle spoon-feeding of industries. After all an industry must stand on its own legs, but for a limited period of time it might want assistance. I am for giving that limited assistance. That is why I make loans renewable. If the bank thinks that it might safely continue the assistance for another period of 3 years, it may be done. But there must be some limit.

9525. *Chairman*: You would provide for 3 years in the first instance and renew loans for a further term of 3 years, *i.e.*, altogether 6 years?—Six years is a sufficiently long period during which an industry ought to stabilise itself.

9526. There is the further difficulty that you practically limit the assistance to Rs. 50,000 for any one concern. Do you really think a new cotton mill can be started with that amount?—I was merely giving it as an illustration.

9527. Mr. Ramdas Pantulu's impression was that you could not possibly have intended that assistance should be given to big and well-established industries and you say that was not your intention. Therefore, I am referring you to another passage in the memorandum in which you practically restrict loans to Rs. 50,000. Beyond that it would be a matter for Government and Government would have a right of veto?—Rs. 50,000 is a sufficiently big capital with which not merely small industries but even industries a little bigger than that could be started. The cotton industry is a long established industry. If there is a new venture asking for an assistance of Rs. 50,000, the industrial bank would give it.

9528. Do you desire to urge seriously that Rs. 50,000 would be sufficient to start a new cotton mill?—Of course not. I refer to the cotton mill industry because you said that the cotton industry is a sufficiently long established industry.

9529. *Sir Hugh Cocke*: Experience has shown that many concerns which expect to be able to pay their loans or finance themselves in six years are not in practice able to do so. Therefore, the industrial bank would not get its money back and eventually incur a loss. You anticipate that industries would be sufficiently stabilised and able to command capital and credit in the ordinary way from the money market in the course of six years. You want an extraordinary amount of foresight to know whether in six years the bank is going to get back its money?—I can concede that there might be certain industries which would want assistance for a longer period, but generally speaking, there must be a limit. After all you cannot grant assistance for an indefinite period of time. If the industry shows signs of prosperity, you can renew the grant for a further term of three years; six years, I thought, is a sufficiently long period for an industry at least to show that it can do well. After six years when the loans are repaid, I think the new industry would be in a sufficiently strong position to command outside capital.

9530. *Chairman*: The Industrial Commission of 1918 observed: "It appears to follow that an industrial bank with a sufficiently large capital to ensure its safe working must, at any rate for some time, combine ordinary banking business with its industrial activities to enable it to obtain a return on capital." You have proposed that your industrial bank should not be permitted to undertake ordinary banking business such as advances, current accounts and receipt of short-term deposits. In making these proposals, have you given due consideration to the views of the Industrial Commission?—I have. But my suggestion was a counsel of prudence. Most of the industrial banks which were started immediately after the War during the boom period combined industrial finance with ordinary banking business and they never succeeded. For example, the Calcutta Industrial Bank, the Karnani Industrial Bank and the Indian Industrial Bank all started with industrial finance and ordinary banking business. I would like the two to be kept separate.

9531. There is some misapprehension. I do not know whether you have actually investigated the position of these so-called industrial banks which were started after the War and which came to grief.—No, I could not do it.

9532. Therefore, it is only your impression that they came to grief?—No. I look to facts. They all went into liquidation.

9533. An industrial bank, if it is to function at all, will have to give not only long-term loans but also short-term loans. Why should it not find the money required for short-term loans from short-term deposits? I fully realise that there must be adequate safeguards and that the bank must not advance for long periods money which it has raised by short-term deposits. But what is the reason for debarring it from taking short-term deposits?—It is only a counsel of prudence. Once you allow it, it would be very difficult to keep within limits. Banking is such a conservative business that it requires no end of prudence and foresight.

9534. If your ideas are to be pursued, then even for making short term advances, these industrial banks must depend on long-term deposits?—Yes.

9535. The Industrial Commission referred to the question of a return on capital; how would you meet that difficulty?—I do not think it would be very difficult for industrial banks to make some profit.

9536. *Mr. Ramdas Pantulu*: Why do you fix a period of two years for fixed deposits?—It might be more; I say 'not less than two years.'

9537. Do you contemplate that all advances should be for two years?—There might be exceptional cases where an industry might require assistance for less than two years.

9538. Probably joint stock banks would not give any further advance for current expenses of industries which are already running when an industrial bank is started, because industrial banks would have greater facilities for knowing the value of securities, products and so on. I expect that no industrial concern would ask for help for a period of 3, 6 or 9 months or one year normally, but every industry would borrow money for a longer period?—I was thinking only of those cases where an industry requires actual assistance.

9539. In a place like Calcutta most of the industrial concerns would go to the industrial bank for short-term accommodation for current expenses for 6 or 9 months. Why should the bank take 2 years' deposits, simply because a portion of its funds is to be lent out for three or six years?—The proportion of short-term assistance would be smaller.

9540. *Chairman*: You ask what the exchange banks have given India in return for the profits derived by them. What would be your answer to the argument that the development of India's foreign trade has been of mutual benefit to India as well as to the exchange banks?—The development of foreign trade has certainly been to the benefit of India, but exchange banks might have done a little more in helping Indians to a greater share of that foreign trade.

9541. Hove you any idea as to what the share of Indians in foreign trade is?—It is not very large.

9542. Have you any definite idea?—It is difficult to give an exact percentage.

9543. You state that the "safety of Indian depositors" requires a certain amount of control over the operations of foreign banks. Have you any instance in mind in which depositors in a foreign exchange bank have lost their money?—I have mentioned this mainly on general considerations. If the Government of India gives assistance to a particular industry, naturally they are entitled to a certain amount of control or supervision on that industry. If a large number of Indian depositors deposit large sums of money in foreign banks, they ought to have some guarantee of safety with regard to their money.

9544. I can quite see the general argument, but have you any instance in mind in which depositors in foreign exchange banks have lost their money?—I am not sure what happened in the Delhi and London Bank which failed long ago.

Mr. Buckley: They were taken over by the Alliance Bank of Simla.

9545. *Chairman*: So far as I know the depositors did not suffer at that stage. You cannot give us any information?—No.

9546. *Mr. Ramdas Pantulu*: I thought you were making this statement on the ground that Indian depositors have no means of knowing the state of banks, because they do not publish any balance sheet?—We do not know where they use the money, how they use it and whom they assist.

9547. *Chairman*: If the depositor is so gullible that he cannot look after his own interests, is any method likely to prove adequate to prevent him from losing his money? The depositor must know all these various disadvantages, but if in spite of that he prefers to deposit his money with that particular bank, can any effective means be taken to prevent his doing so?—The depositor goes to that bank because of the terms he gets.

9548. *Chairman*: At the present moment the depositor is not compelled to deposit his money in any particular bank or institution. He alone is satisfied that his money is safe with any particular institution and my point is whether it is possible by any method to prevent him from doing so if he deliberately chose to put his money in the foreign banks?—So far as the indigenous bankers do not publish their balance sheets I have suggested the same thing. In regard to deposits in the foreign banks people go and deposit their money because of the terms they offer and generally speaking exchange banks are sound businesses.

9549. Is it your proposition that the terms, by which I suppose you mean the rate of interest, offered by the foreign exchange banks are higher than those offered by the Indian joint stock banks or even the indigenous bankers?—What I say is, considering the security and safety of these exchange banks, the terms are tempting.

Therefore from your statement it naturally follows that the exchange banks are sound businesses.—Generally, but not all.

9550. *Mr. Manu Subedar*: There were only 6 foreign exchange banks in this country before the war, but now there are no less than 17. Do you think that all of them are secure and safer than any Indian institution?—It cannot be.

9551. *Chairman*: In fact it was precisely what I tried to get from you. Can you give me an instance of a foreign exchange bank in which the Indian depositors have lost their money?—I cannot give you any specific instance, but my idea is that you cannot argue on it as a general proposition. I have not got the inferiority complex in me so far as the Indian banks are concerned.

9552. But it is not a question of superiority or inferiority complex. It is the will or desire of the depositor. That being so, how can you stop him from doing so?—You can educate him.

That is another matter. It is for you, professors, to do that. This Committee, unless it becomes a permanent institution in the country cannot do this kind of work.

9553. *Mr. Ramdas Pantulu*: Your point is if the depositor is entitled to certain protection from the State and the banking law of the country, you should take certain precautions in regard to all banks. So you will insist, in the interests of the depositor that these banks should keep a certain amount of fluid resources and a certain portion of cash to meet the demands of the depositors?—Yes.

9554. Therefore, is it your view that the Indian depositors are entitled to protection and you think that this Committee should lay down definite proposals?—My point is that the interests of the depositor must be safeguarded. These foreign banks do not publish their balance sheets. Whether it be joint stock banks or foreign banks, they should all be asked to work under proper control as is the practice followed in every civilised country in the world.

9555. *Mr. Manu Subedar*: You remember that in 1926 a Japanese bank called the Bank of Taiwan closed its doors temporarily in Bombay and the Indian depositors were in great difficulties although they did not ultimately lose their money. Next time if such a thing occurs it might prove to be disastrous; and therefore your view is, I take it, that even if the depositors are educated about the position, it is the duty of the State to protect the interests of the depositors?—The instance you have cited strengthens my case. My point is that the interests of the depositors should be safeguarded.

9556. *Mr. Buckley*: I put it to you that not a single Indian depositor lost a single pie through the temporary closure of the Bank of Taiwan at Bombay.—I accept your statement, but is there any guarantee that a similar state of affairs will not recur in the future and people may not lose their money, although I am glad to be told that the Indian depositors did not lose at all in this particular instance.

9557. *Chairman*: On the general question we have got sufficient facts to enable us to come to conclusions, but when you say that "they should be compelled to publish half-yearly statements of their assets and liabilities", I presume you only refer to the Indian transactions?—The whole business is inter-connected.

At the present time every foreign bank publishes a statement of assets and liabilities. However, as you do not actually possess the information, I will not pursue the matter.

9558. *Mr. Manu Subedar*: May I take it that your conclusion is that on account of the various grounds including the protection of the interests of the Indian depositors you will not allow the foreign banks to work in this country unless they do so under the Indian law and under the restrictions that are imposed on Indian banks at present in this country?—Government ought primarily to look after the interests of the people of India. Government ought to see that we have a certain amount of control over these foreign banks.

9559. Would you allow the foreign banks to receive deposits in India? You know how these deposits which are largely Indian savings, are being used by these banks to finance foreign nationals. Would you allow those conditions to go on?—I would like to impose some restrictions on their work just as there are restrictions in other countries of the world.

9560. In other countries is their freedom to receive deposits restricted? —That is so.

9561. If they want to take deposits in this country, they must register themselves under our law. Would you agree to that proposition?—I am perfectly agreeable to that.

9562. *Chairman*: Would you yourself advocate it? A foreign exchange bank may agree to submit itself to certain forms of control which might include publication of balance sheets, a particular form of licencing terms, etc., but the further condition that no foreign exchange bank which does not register itself in rupee capital in this country should not be allowed to take in deposits in India is an additional condition, which may or may not be wholly required from the point of view of the interest of the depositor. Here we are concerned only with the safety of the Indian depositor. From the point of view of the safety of the Indian depositor do you consider it necessary that a foreign exchange bank which does not register itself in rupee capital should be prevented from taking any deposits?—It should not take deposits without taking a licence, which will regulate the conditions of the deposits.

9563. A licence would not regulate the deposits. In fact I am coming to your specific provisions almost immediately, but here we are discussing the question of the safety of the Indian depositor and from that point of view do you think it necessary that any foreign bank which does not register itself in rupee capital must be debarred from taking deposits if it subjects itself to certain other conditions which may be considered necessary by this Committee or Government?—Debarring of Indian deposits is not for the protection of the depositor, but it is for the protection of Indian interests.

9564. By protection of Indian interests, do you mean that the deposits received by these exchange banks in this country should be utilised fully for the development of India's industry and trade?—That is exactly my point. Indian industry and trade ought to have the first charge.

9565. For the same object will you also prevent an Indian from investing his money in foreign securities? Apparently, my information is that something like Rs. 50 crores of the savings of Indians have in the last 3 or 4 years been invested in foreign securities, which means that that amount has ceased to be available for the development of Indian industry or Indian trade?—Rs. 50 crores invested in foreign securities?

9566. I am not able to tell you whether that figure is quite correct, but that is the private information that I have been able to gather?—I am very much surprised to hear that such a large amount of Indian money is invested abroad.

9567. You would in that case also interfere with the right of the private individual who wants to invest his money in foreign securities?—Assuming that Indians have invested in foreign securities, it is very difficult to impose any restriction on the liberty of private individuals.

9568. Supposing an Indian who puts his money in these foreign banks now prefers to send it out of India for purposes of investment in foreign securities, how will you achieve your object then?—My impression is that such cases will be few and far between.

9569. *Mr. Manu Subedar*: When a situation of that kind arises, a National Government always takes some precautionary steps. Are you aware that during the War and immediately after the War both in Germany and to some extent in Britain and in the United States of America restrictions were placed as an emergency measure on the export of capital to safeguard the National interests?—I agree. Government must take action to meet such emergencies.

9570. Would you also agree that a higher exchange prevents the import of foreign capital and also leads to the export of capital? *Prima facie*, if there are no serious causes leading to capital displacement, you do not expect that capital will be exported?—No.

9571. *Dr. Hyder*: When the war broke out did this item of foreign investment prove to be an item of strength or weakness so far as England was concerned?—Generally, when you become a creditor country, this is a sign of strength. In regard to England the case was different. They exported capital abroad after meeting all their needs.

9572. *Mr. Manu Subedar*: Would you call a country a creditor country if the credits were more, as you would see that in spite of the fact that India has exported Rs. 50 crores, still it is not a creditor country?—That is true.

9573. *Chairman*: I think you lay stress on this point that you want the savings of Indians to be used firstly and fundamentally to meet India's requirements?—Yes.

We have been told that the exchange banks use almost all the deposits which they take in this country for the purpose of financing of foreign trade of this country?—We do not know exactly how these exchange banks are using our money.

9574. Supposing it were established that they are using all their deposits in financing the foreign trade of this country, what would you say to that?—Then I will ask the question as to how much they utilised for helping Indians as against foreigners?

9575. Therefore you would begin by making a racial or communal distinction?—I do not make it, but the impression that we have gathered is that these distinctions are made by banks themselves.

9576. Therefore you are for a retaliatory measure?—No, but I want it as a self-protecting measure. Every one has the right and duty of self-defence.

9577. *Mr. Ramdas Pantulu*: I am not quite able to follow the distinction you make with regard to the action you want to take against the exchange banks taking deposits in this country and the Indian deposits going into foreign countries. I thought you said that the exchange banks should be prevented from taking deposits in the national interests. By that I understood you to mean that India should have her capital available for large schemes like the formation of land mortgage banks and industrial banks and so on. Therefore if the exchange banks do not take these deposits you expect this money to flow into Indian joint stock banks, co-operative banks, etc., which will finance the Indian concerns. Therefore,

you think the best way of drawing this money from the exchange banks into Indian business is by prohibiting exchange banks taking deposits. Is that not your point?—I would not prohibit them provided they worked under our Indian law and were amenable to our control.

9578. Supposing they submit to the same restrictions like any other bank in India, supposing the exchange banks say "we are perfectly willing to fall in under the Indian law"?—If they agree to take Indian directors and Indian capital and submit to other forms of control, I would not object to their doing business in this country.

9579. Therefore, it is more a question of control than anything else?—Yes, it is a question of adequate control.

9580. *Mr. Manu Subedar*: Can you have adequate control unless they became Indian companies with Indian directors, Indian shareholders and Indian rupee capital?—I agree with you there.

9581. It has been suggested to us that if the exchange banks were given by the Reserve Bank Board or the Finance Member a licence to work in this country that will be an enough safeguard. Would that be enough safeguard to Indian depositors or a proper safeguard against the competition of these foreign banks in this country?—It all depends on the terms of the licence.

9582. If the licence simply says that the balance sheets must be all right and periodical observations must be made by an officer appointed for the purpose, will that do?—That will not be adequate protection. In order to have some Indian institutions engaged in exchange banking some kind of restriction is also necessary to avoid Indian exchange banks being killed by deadly competition.

9583. You know of the shipping warfare that took place a few years ago and how a foreign shipping company offered to take passengers free of cost as against an Indian company to crush the latter?—I know of that full well and I know that the foreign shipping company even volunteered to give free refreshments to passengers that plied between Calcutta and Chittagong.

9584. I would like to have your opinion of another aspect of this question which is that if some of the foreign banks did choose to register themselves under the Indian law because the field is profitable in order to enable them to take Indian deposits would you not give them some preference over those foreign exchange banks who would not care to come under the Indian law?—Yes, some preference should be given.

9585. *Mr. Manu Subedar*: If some of the foreign banks did choose to register themselves under the Indian law in order to enable themselves to take Indian deposits, what would you do with those foreign banks which said that they would not come under your law?—I would let them go.

9586. *Chairman*: We want to know what your proposition really is. Do you want that any foreign exchange bank which is allowed to take Indian deposits must register itself as an Indian company with rupee capital, etc., or do you want—and this aspect may be the more important—that it should be subject to certain control which would safeguard the interests of the depositors and which might also ensure that Indian deposits are used for Indian purposes?—My reply to that would be that so long as these exchange banks subjected themselves to the control of Indians, register themselves under the Indian banking law and give

adequate protection to our people and look after our interests, I would permit them to take deposits.

9587. Are you aware that control can be and is exercised over foreign banks in other countries without insisting on conversion of the foreign company's capital into local currency?—Control can be exercised without insisting on that.

9588. Do you then insist that these foreign exchange banks, before they are allowed to take deposits from Indians in India, should convert themselves into companies with rupee capital or would it satisfy your requirements if steps were taken to provide for an adequate control over these foreign exchange banks without insisting that they should register themselves in India with rupee capital?—Of course it is possible in some foreign countries without insisting on the conversion of the capital. But with regard to the exchange banks which are already doing business, conversion of capital would be difficult, almost impossible. In regard to the new banks that might be started we might insist on rupee capital. If we have Indian capital, our control would be much more effective.

9589. *Mr. Manu Subedar*: What about the profits which the exchange banks are making. Unless you insist on their registering themselves in this country in rupee capital, the Indian banks would have no chance?—It would be difficult to insist on rupee capital in the case of those exchange banks which are already working; but I would suggest rupee capital in the case of new companies. As a matter of fact I would not like to impose too many restrictions all at once.

9590. I suggest to you that preference should be given to exchange banks with rupee capital and that others should not be allowed to take deposits?—If the foreign banks with foreign capital submitted to our control, I would let them accept Indian deposits.

9591. *Mr. Ramdas Pantulu*: Supposing your conditions about these exchange banks registering themselves with rupee capital in this country and coming under the Indian law are not satisfied and supposing that the control that you mention is not forthcoming, in that case would you allow these banks to take deposits from India?—No.

9592. Supposing it was ascertained that 50 per cent. of the foreign trade is in Indian hands, would you allow the exchange banks under existing conditions to take half the amount of deposits?—How am I to know that? And how are you going to prescribe the limit in the case of each foreign bank?

9593. If such money were required for the financing of the trade in Indian hands, will you agree in theory that the foreign banks should not be allowed to take deposits to that extent?—As a purely theoretical proposition, if they do not agree to our conditions, I would not let them take our deposits. If the deposits are stopped, I think that will be sufficient for the purpose. My idea is that the form of control which we want to exercise would be practicable and that it would not be necessary to take the extreme step of stopping deposits.

9594. *Chairman*: You state that all foreign banks should be compelled to take a certain number of Indians for training as apprentices. Is it your idea that these apprentices should be trained with a view to and under an agreement for employment in the banks, or is it your idea that such banks should give practical training to students?—Of course it would be impossible to insist that all apprentices must be taken up by banks;

that would be difficult. But I would insist on the facilities for training being given. The material we can produce would turn out first class men, provided we get adequate facilities for training. I have in my mind a particular case in the Lucknow University where we have a Faculty of Commerce; this Faculty of Commerce gives specialised training in Advanced Banking, Auditing and Accounting. Some of the B. Com.'s that passed tried to get into certain banks for training; but the arrangement was found to be unworkable; what the banks wanted was that these students should come during office hours. With great difficulty we put in two boys and one of them, I am glad to say, has now been taken up by the Midland Bank of England.

9595. *Chairman*: For training or for employment?—My information is that he was first trained and subsequently employed.

9596. I am interested to know this. Can you give us his name?—I am afraid I cannot give you the name of the boy. If you want the particulars, I can get them for the Committee.

We should be obliged if you would.

9597. *Mr. Manu Subedar*: Do you know of any of your students who has been admitted for training with any of the exchange banks in India?—No, not one; the utmost they can look for is Central Co-operative banks.

9598. *Chairman*: You say that when the Imperial Bank of India Act was passed, Government surrendered to the clamour of the exchange banks and that restrictions were accordingly placed on the Imperial Bank "as regards foreign exchange business". Have you any authority for this statement?—My authority for the statement is the Imperial Bank Act itself. When the Imperial Bank Bill was taken into consideration by Government, a number of exchange banks protested and we know that the Government conceded to them what they wanted.

9599. Is it your proposition that while the Government of India first introduced the Imperial Bank Bill, they had provided under that Bill for the Imperial Bank to do foreign exchange business?—No. Before the Imperial Bank Bill was actually introduced, discussions had been going on in the press.

9600. And the Government of India had intended at an early stage that the Imperial Bank should do foreign exchange business?—Possibly there was some talk about it; the exchange banks protested and the Government then decided not to allow the Imperial Bank to do exchange business.

9601. Were the banks amalgamated into the Imperial Bank doing foreign exchange business?—Yes, only one and that to a very limited extent.

9602. Are they doing that business to the same extent?—Yes.

9603. My point was whether this provision in the Imperial Bank Act arose out of what you call "the clamour of the exchange banks" or whether it was a repetition of the state of things which existed in connection with the three Presidency Banks?—The provision that existed has been repeated in the Imperial Bank Act, but at the time the Imperial Bank Bill was taken into consideration, there was a volume of opinion asking that the Imperial Bank should be permitted to do exchange business, but that was not granted.

9604. Was it really a surrender on a clamour or was it a continuation of an existing state of things simply to safeguard the interests of Government in a certain direction? Because I know that when in 1921 the Imperial Bank was established, it became the Government's banker and it was not allowed to take up foreign exchange business except to a very limited extent as we wanted to safeguard Government balances.—What I thought was that at the same time there was a considerable volume of opinion asking that the Imperial Bank should be permitted to take up exchange work.

9605. Then, if I may say so, these words are the usual hyperbole?—I do not think so. I do not agree with you.

9606. *Mr. Manu Subedar*: You are not aware of the representations which the exchange banks sent to the Government and to the Secretary of State on the subject?—I know they protested against the Imperial Bank being permitted to take up exchange business.

9607. Are you aware that the Indian joint stock banks have been complaining of unfair competition and while something was done to protect the interests of the exchange banks against the Imperial Bank, nothing was done to protect the interests of the Indian joint stock banks?—That is so.

9608. *Chairman*: Do not the restrictions on the Imperial Bank's powers in regard to internal business afford protection to the Indian joint stock banks?—No, Sir. I have already said that the Imperial Bank, from the way in which it has been doing business in the *mofussil*, has affected the Indian joint stock banks considerably.

9609. You say that most of the branches of the Imperial Bank have played havoc with the Indian joint stock banks. Can you give one or two specific instances?—Not being connected with any Indian joint stock bank myself, I cannot give you any specific instance. But my impression is that the free facilities given to the Imperial Bank in opening branches all over the country have considerably affected them.

9610. In what respects?—In the matter of deposits.

9611. You are aware that the Imperial Bank's rate for deposits is lower than the rate offered by joint stock banks at the same station?—Very small difference, and that is compensated for by other considerations regarding the status, prestige, etc.

9612. If the opening of a branch of the Imperial Bank at a particular centre where there was already existing a branch of an Indian joint stock bank has brought down the rates of interest on advances, has not that been a gain to the community?—That all depends on who gets the advantage of the lower rate.

9613. Apparently every customer of the Imperial Bank gets it. Are you aware of a place called Chandausi in the United Provinces? Well, if you were told that when the Imperial Bank opened a branch at Chandausi, the immediate result was that the rates of interest came down and that thereafter when the Imperial Bank closed that branch for some reason the rates of interest went up and that thereafter the local Indian merchants sent representations to the Imperial Bank asking them to reopen the branch, would that in any way remove from your mind the suspicion that the Imperial Bank at these *mofussil* centres does not adequately help the Indian trade?—The case that you quote may be a solitary instance.

9614. I may be able to quote many; let me give you another instance in your own province, namely that of Hapur?—I may say again that these must be solitary cases.

9615. I have given you one instance. As it is, we had plenty of evidence. The one I have given you occurred in your own province in which the Imperial Bank, having opened a branch, actually closed it.—It might be a very solitary case.

9616. At any rate there is a case.—If it has actually occurred, it must be a very solitary case.

9617. Hapur is a big centre for Indian merchants.—Was there a joint stock bank at Chandausi?

There was, also at Hapur. I shall leave the question at that.

9618. *Mr. Ramdas Pantulu*: If a powerful bank such as the Imperial Bank with large Government balances at its disposal opens a branch somewhere there is no doubt that it would be able to bring down the rate of interest. To that extent it would be an advantage to the community. But as against that, there is the idea that Indian joint stock banks cannot flourish in competition with Imperial Bank in this country and establish a network of banks in order to improve banking facilities in this country. This advantage to the community at the particular place where the Imperial Bank opens a branch is set off against the disadvantage of killing joint stock banks and making it impossible for them to expand their business; which would you prefer?—If the Imperial Bank which, as it is, is the most powerful bank in the country opens a branch in the *mofussil* possibly it would bring down the rate of interest in competition with other banks. That might be a gain to the community to a certain extent. But if the result of that also is that Indian joint stock banks who are already pioneers suffer, then you have to strike a balance between the advantages and disadvantages. If a joint stock bank fails or cannot carry on business in competition with the Imperial Bank, it would have a disastrous effect. That is what I meant by saying that the Imperial Bank has considerably affected the fortunes of Indian joint stock banks in the *mofussil*.

9619. *Chairman*: That is only your impression, because you could not give us any single instance where an Indian joint stock bank had to close its doors at any particular centre after the Imperial Bank started its branch there. As I have already told you, the class of work which the Imperial Bank can transact is limited.—Yes.

9620. *Mr. Ramdas Pantulu*: The Imperial Bank, when it opens a branch in the *mofussil*, advances to traders against produce and also gives clean loans on joint promissory notes; this is also the business done by Indian joint stock banks when they open branches there. I do not know if you have read the memoranda submitted to the Select Committee of the Reserve Bank Bill in which complaints were made that first class business always went to the Imperial Bank branch and only second, third and fourth class businesses went to the branches of the joint stock banks. Whether this is true or not I cannot say, but the business done is mostly the same?—That is what I have heard.

9621. Have you heard that wherever there was a branch of the Imperial Bank first class business goes to them?—Yes.

9622. It is only the inferior business which the joint stock banks get and so their prestige is affected?—Yes.

9623. *Chairman*: You state that Government audit of the accounts of indigenous bankers may rehabilitate them. Do you think such audit will be acceptable to these bankers?—As I have said, with regard to foreign banks, we must insist on a certain amount of control over indigenous bankers as well.

9624. Your view is that if they do not submit themselves to this control they should be debarred from taking deposits?—Yes, we must insist upon some control.

9625. *Dr. Hyder*: Would you debar them from taking deposits?—We must force them to work under our control.

9626. Are you aware of the state of public opinion in the Punjab and elsewhere?—Yes, though the Money-lenders Registration Act was criticised very strongly, there are strong arguments in its favour.

9627. *Chairman*: You suggest several reforms in the Imperial Bank. At the same time you state that the first basic reform for developing the banking system in India is the establishment of a Central Reserve Bank. Am I correct in understanding that your proposals in regard to the Imperial Bank are intended to be operative so long as it occupies its present position?—Yes.

9628. *Mr. Manu Subedar*: You know that deposits constitute what is known as the working capital of banks as contrasted with share capital?—Yes.

9629. The amount of money to be paid on deposits is the rate at which deposits are taken and nothing more. It has no reference to the profits made and the profits made on working capital go to the share capital?—Yes.

9630. From that point of view, would you give a chance to Indian concerns, having their own share capital, to earn profits on their working capital?—I have explained my position in regard to this question already in detail.

9631. Would you allow Indian money to be lent out abroad and want India, which is a poor country, to lend her money to foreign concerns, instead of satisfying her own wants?—I have already said that our home needs must first be satisfied.

9632. I was not clear about your answer on this point. Apart from the control which you would exercise over foreign institutions, from the point of view of encouraging Indian industries, would you allow Indian companies registered in India to have preference over foreign ones?—Yes, I would.

9633. Would you leave foreign concerns free to take deposits?—I would insist upon foreign banks, before they take deposits, to submit to our control and if they do not submit to our control, I would not let them take deposits.

9634. Should not the control be adequate?—It is difficult to suggest what the detail form of control should be. That would be decided later on by Government and it would be for the Committee also to suggest.

9635. It should be an adequate control from the point of view of depositors and the Indian interests concerned?—Yes, it should be adequate Indian control.

9636. *Dr. Hyder*: With regard to the list of text books prescribed for the M. A. examination of the Calcutta University in Economics, I take it that the heading you have given, namely "The History, Theory and Present System of Banking and Currency" refers to India?—Not merely to India, but it refers to the banking system of other countries also.

9637. Is there anything in that list which you give from which Indian students can know anything about the Indian banking system and its operation at the present day?—Yes, there are the books by Shirras on 'Indian Finance and Banking' and by Rau on 'Present Day Banking in India'.

9638. Too much is written about foreign countries in these books?—The number of books on Indian banking and currency is very limited and the Universities are working with a certain amount of difficulty, but gradually we would get more books.

9639. Would it not be a profitable thing for a professor to write some good book on Indian banking?—My answer to that would be that the Indian Banking Enquiry Committee's report would be the best material out of which the book would come. I am perfectly certain that the Committee are gathering materials which we as outsiders would never be able to know and the publication of the Committee's report would be the best opportunity for getting out such a book.

9640. If you look at the list of books prescribed for Paper IV, Currency and Banking, in the University of Lucknow, given in your memorandum, you will find that there is no book which would give proper instruction in theoretical knowledge to Indian students?—The theoretical knowledge about banking will be obtained from Scott's "Money and Banking".

9641. Theory as it is at the present day applied in India?—This list was drawn up by the University of Lucknow about ten years ago and it has not since been revised for the simple reason that we do not get any student in this particular paper.

9642. Would you agree with me that there is a paucity of books especially bearing on India and it is very necessary to give proper training to Indian students on Indian banking?—Yes.

9643. Has your B. Com. degree both a pass as well as an honours course?—We have no honours in B. Com.

9644. Is it a two-years' course?—Yes.

9645. In the appendix to your memorandum under 'Courses of Study', how is it that banking law does not find any reference?—We have another paper on mercantile and commercial law, and banking law comes under that. Possibly, some of my appendices have not been printed.

9646. I take it you are sending out students to co-operative banks?—Yes. Co-operation comes in to a very limited extent in this course, but there is a special paper on Co-operation carrying full 100 marks. I am sorry I have not given you the full B. Com. syllabus.

9647. Some of my colleagues on the Committee would be glad to hear that the University of Lucknow is giving proper attention to this important subject of co-operation. What is it you include in co-operation? Is it just a general statement?—We teach first of all the whole structure of the co-operative movement, the primary societies, central societies and in provinces where there are district banks like the United Provinces, the structure about them also. Where there is no provincial bank, we teach the organisation of the movement.

9648. Do you include some study of the Indian Co-operative Societies Act as well as of the bye-laws and regulations?—We teach them the Co-operative Manual of the United Provinces, which gives the Act as well as the bye-laws and the regulations.

9649. *Sir Hugh Cocke*: Do you think that an industrial bank should finance an industry from the start, or do you consider that private traders should in the first instance start an industry and merely go to an industrial bank for additional help?—I should think that it would be a very rare case where an industry, before it practically starts business, immediately runs to an industrial bank for assistance. Private people must have made some advance in the beginning.

9650. You visualise that it would really be to assist industries which are already started and which want full development?—Yes, after all the primary responsibility must be on other people and not on the industrial bank which can only render some assistance.

9651. You said that it would be practically impossible for foreign banks to register themselves with Indian capital. If, for example, a French bank were floated in India with rupee capital the major portion of which would be held by Indians, that bank would become a separate entity from the present bank in France?—Yes, that is why I said there would be difficulty with regard to existing banks. New banks might be started with rupee capital.

9652. And being a separate entity, it would be a question of terms under which the French Bank at Paris would sell their Indian connection to the French bank in India?—Possibly.

9653. Obviously the French bank at Paris is not going to sell its Indian connection for nothing?—Possibly not.

9654. If this were done and if the Indian banks were to become separate entities, the exchange relations between the Indian bank and the Paris Bank would be different from what they are to-day?—Certainly.

9655. In your memorandum you go into the question of hoards and say that "unfortunately, what has been done so far is so poor and so little as compared with what remains to be done. Government ought to appoint a small committee to go into the whole question, etc." Do you think that this Committee is competent to deal with the subject and have you any suggestions to make?—This problem of hoards is a big problem by itself and it ought to be scientifically investigated.

9656. The Provincial Banking Enquiry Committees have gone into this question. Have you seen their reports?—To a certain extent, they have.

9657. Do you think that a small committee can do what the provincial committees have failed to do?—When I wrote the memorandum, I had not seen the provincial reports.

9658. Do you consider their reports satisfactory?—I have only seen the United Provinces report.

9659. *Mr. Ramdas Pantulu*: If the question falls directly within the purview of this Committee, why should another committee be set up on it?—If you are prepared to take up the subject, I do not object. But I thought it was a big problem and it needed special investigation.

9660. *Chairman*: The provincial committees have already investigated into the matter and the general consensus of opinion is that there are

practically no hoards.—My idea is different, and I maintain it. I may tell you that when I wrote the memorandum I did not get any of their reports and I did not know whether they would go into the question deeply or not.

9661. *Dr. Hyder*: What do you mean by hoards, gold or coin?—There are many different forms, bullion, gold, silver.

9662. A question was raised whether it would be possible for an economist or a statistician to estimate the amount of gold in a particular locality or in a particular province. Would you like to give your attention to this matter and state how an estimate could be made of the quantity of gold in a given province?—I have not thought about the exact way in which this enquiry might be carried on, but I am perfectly certain that an enquiry undertaken by any private individual would not succeed in obtaining any material.

9663. Scientifically it is a problem of method?—I have not thought about this problem deeply myself; that is why I suggested that it needs investigation.

9664. *Mr. Manu Subedar*: Would people give information as to how much they have?—I know it is difficult; even educated people do not want to say how much balance they have in the banks.

9665. *Dr. Hyder*: Can you give us any idea of the estimate of gold?—Several estimates have been made in the past; Mr. Macleod has made one, Lord Curzon has made one.

9666. Could we estimate the amount of gold, for example, in the City of Lucknow?—A Government committee can to a certain extent succeed, but not a private enquiry, because no man would give information.

Chairman: The Provincial Banking Committees were Government committees and they have generally expressed the opinion that there are practically no hoards. You say a private enquiry would not bring out any valuable information. There was an official committee on which, so far as I know, there was another distinguished Professor of Economics from your province, and I believe they also came to the conclusion that there are not much hoards in India?—I disagree entirely with that view.

9667. *Sir Hugh Cocke*: Regarding methods of attracting investments, you have given an interesting suggestion in connection with the postal cash certificates. You say "vigorous propaganda is necessary to stimulate their sales by lectures, posters and advertisements in the vernacular, in bazars, markets, fairs, railways, post offices, hospitals, thanas, schools, colleges, clubs and societies, etc." Do you think that a permanent train going round India with suitable slides to show the methods and benefits of investment would bring out people's hoards?—No, I do not think so. When the train comes to a particular locality, it would be taken up as a tamasha for a few days. As soon as the train leaves, people will forget all about it.

9668. The train might come back a year later?—How many trains can you provide?

9669. I was only wondering whether propaganda might be made in this way?—Why not? Further, I would like to refer to the defect that the cash certificates bear no photo of His Majesty the King.

9670. If we got Government to print the photograph of His Majesty, do you think it would stimulate the sale of cash certificates?—I will tell you my own experience. Some of my servants have made small savings and they always bring those savings to me for keeping them. I tried to show them the advantages of putting their money in the cash certificates. At first they would not hear of it, but after a good deal of coaxing, I induced one of them to buy a cash certificate. But when it came, the man turned round it several times and asked where the Government of India came in and why the King's face was not on it. All my servants adduce the same argument and say that even a half anna postage stamp bears the face or figure of the King. These illiterate people are very difficult to be convinced. The photograph of the King himself would make a much greater appeal and inspire much greater confidence than the promise made in the cash certificate.

9671. *Chairman*: In the old currency notes there was no figure of the King and that did not prevent them from being popular; even the one rupee notes had a very large currency?—But these poor people generally see currency notes changed every day and passed from hand to hand every minute of their lives. Cash certificates are not so frequently seen. I am putting to you the view which most people take about these cash certificates.

9672. *Chairman*: And what about Government promissory notes. I have seen poor people buying Government of India promissory notes of even Rs. 100, but there is no imprint of the King there?—Cash certificates should have a certain amount of dignity attached to them.

9673. *Dr. Hyder*: Where did your servant keep his cash certificate?—I was prepared to keep his cash certificate with me. I asked him to purchase the cash certificates which gave him some interest instead of keeping his money idle with me.

9674. Do you know whether there is any provision for the post office to keep such certificates for safe custody?—Formerly the Accountant General used to keep them for safe custody but now that facility has been withdrawn.

9675. *Mr. Ramdas Pantulu*: People deposit their money with the post office savings banks and they do not have the portrait of the King printed in the pass books issued to them?—That is so.

9676. *Sir Hugh Cocke*: On the question of the minimum capital for a bank, you are unable to support the principle that there should be a minimum limit placed. You ask why the State should intervene to lay down such a minimum capital standard in the case of one industry alone, *viz.*, banking, while leaving all other industries free. We have various factors placed before us and of course your point is one of them. Do you think it advisable that mushroom banks should be allowed to crop up as they did in the year 1912 and later when there were many banks' failures in this country?—Provided a bank submits itself to proper control there will not be a growth of mushroom banks.

9677. Supposing a bank starts business with a capital of Rs. 10,000, will it be advisable?—It is a doubtful proposition.

Dr. Hyder: I know there was a bank with only Rs. 5,000 paid-up capital in the Punjab?

9678. *Mr. Buckley*: If I tell you of a Bank which began work with a capital of only Rs. 526-13-3 after paying for the preliminary expenses, what would you say to that?—These are very strange facts which I never thought of.

9679. *Sir Hugh Cocke*: Would you not be prepared to amend your view? Would you not like to place a small limit anyhow?—Yes, I am in favour of placing a limit—under the circumstances that you mention.

9680. *Mr. Mukhtar Singh*: You say the charge is often made that Exchange Banks manipulate the rates to the detriment of merchants and you do not agree with that view?—The allegation is that they charge a high rate of exchange, but I do not believe in it.

9681. You say that there should be a committee for investigating about the hoardings of the people but now as the Chairman has told you that all the provincial committees who went into the matter have reported that there is not much of hoarding, would you modify your opinion?—Not until I see on what basis the provincial committees have come to that conclusion. I believe there are hoards. I would require a considerable amount of reasoning and persuasion to make me believe that there are no hoards.

9682. *Chairman*: Each of these provincial committees had on it an Indain economist of some repute and there were several Indians on these committees and they made intensive surveys by sending people into particular centres into the villages in the interior and as a result of such intensive surveys they have come to that conclusion. Practically all the committees did it?—Well, I am surprised. My point was, I thought the Banking Committee's hands are full.

9683. It is one of the items on which we have to enquire into, but as we ourselves could not go into every province and thereafter examine these various items ourselves, the provincial committees were appointed as a part of the scheme of enquiry; and these committees were mostly composed of Indians. Now then they made certain investigations on the spot. Having made that enquiry they came to the conclusion that there are no hoards.

Sir Hugh Cocke: That is only with reference to silver rupees and not ornaments.

Chairman: It is quite a different matter.

Witness: When I sent this memorandum, I had not got the reports of the provincial committees before me. My honest belief is that there are hoards and as I realise that the difficulties of finding out the hoards is much too big I suggested that this question needs investigation.

9684. *Sir Hugh Cocke*: By hoards you mean gold and silver coins and bullion?—Yes.

9685. *Mr. Mukhtar Singh*: Then do you consider that there is hoarding in the shape of coin and bullion?—Yes.

9686. Can you give us any grounds for that impression?—Vast amounts of precious metals are being freely imported into the country.

9687. *Chairman*: How much of these have been converted into ornaments?—Some of the committees have tried to go into that question?—I did not know.

9688. *Mr. Ramdas Pantulu*: You have given us a scheme for an industrial bank. You have suggested an all-India bank with branches at different centres. Have you considered the advantages of an alternative suggestion of an industrial bank for each province?—Mine is only a rough scheme. My idea was that an all-India bank must be a stronger institution operating through provincial branches.

9689. You know that there are State Aid to Industries Acts in some of the provinces and that industries are being financed?—Yes.

9690. Even under the present constitution and as it might be amended in the future it may not be possible to transfer funds from one province to another; so industries must essentially be a provincial subject?—I would not mind having provincial banks.

9691. If the advantages of provincial banks are shown to you you would have no objection to their being started. Is that not so?—Yes.

9692. You ask for a guarantee of interest. 5 per cent. on what?—On the share capital.

9693. You are not in favour of guarantee of interest on debentures?—My idea was when the railways were first started in India Government guaranteed interest on capital.

9694. Your idea is that the guarantee should in any case be withdrawn after a period of 15 years?—That is my point. It will encourage industries to stabilise themselves during that period.

9695. Do rural economics form a subject of study in your university?—Yes, there is a special paper in rural economics in our M.A. Economics examination.

9696. You say that the theoretical training given in the universities is neither recognised by the banks nor supplemented by practical experience in them?—There is a great lack of co-ordination between the two and this leads to waste of effort.

9697. Do you suggest any means by which you could link universities with banks?—Unless banks agree, it will be difficult. Our Dean has tried his level best to put his men into banks as unpaid apprentices, but he finds it very difficult to do so.

9698. So your scheme is to take your B. Com. graduates for a short course of practical training in these banks?—Yes. So long as our B. Com. students do not find such opportunities there is a certain amount of wastage of effort. At present our B. Com. students have got to go to the co-operative banks on a poor pay of Rs. 40 or so.

9699. You speak of the use of the word bank. Do you not think that when the Reserve Bank comes into existence or a Central Banking agency is set up in this country and provisions are made for recognising certain banks with which it would have dealings, some kind of standard should be observed? Do you think that a Reserve Bank can deal with every bank in this country with a capital of even Rs. 10,000 or so? As a member of the

Select Committee on the Reserve Bank Bill I know that we had great difficulty in laying down the restriction and ultimately Rs. 3 lakhs was the limit fixed by the Select Committee. Therefore, your scheme seems to be directly in conflict with that?—I would not expect very many cases of banks opening up with small capital. If a small bank is started then it can work outside the control of the Reserve Bank.

Report of discussions with Sir Osborne Smith.

The 21st March 1931.

(Circulated by Mr. V. Ramadas Pantulu).

The position about the Cash Credits allowed by the Imperial Bank to Provincial and Central Co-operative Banks.

1. Cash credits are given partly against Government securities and partly against Demand Promissory notes of unlimited liability credit societies and Central Banks (which may be called Co-operative Paper).

2. The Demand Promissory Notes of credit societies are legally negotiable instruments. They are also registered under the Indian Registration Act as a matter of practice in Madras and perhaps elsewhere too.

3. The cash credits are allowed to be utilised for two purposes, (*a*) for fluid resources, (*b*) for utilisation for term loans repayable within a year.

4. There are limits fixed in respect of each co-operative bank to the cash credit allowed against Government paper as well as that allowed against Co-operatve paper. The interest is either flat rate or bank rate according to the agreement.

5. The conditions on which the cash credit is allowed in Madras are stringent. I believe they are more or less the same elsewhere. I shall quote three of the conditions from the Madras agreement with Imperial Bank.

(*i*) As a general rule, the cash credit will not be allowed to an amount exceeding the owned capital of the central bank concerned; (It is much less in practice under the existing arrangements).

(*i*) The actual value of the collateral securities furnished should be in excess of the cash credit sanctioned by at least 33 1/3 per cent.

(*iii*) Each central bank should forward to the Imperial Bank every quarter a list of promissory notes lodged as collateral securities showing the amount outstanding on each promissory note together with a certificate to the effect that the promissory notes lodged as collateral securities are in order. The list and the certificate are verified every half-year by the Deputy Registrar concerned, and the certificate of each verification is forwarded to the Imperial Bank through the Registrar.

6. So far there has been no instance in which the Imperial Bank lost a single pie over this transaction nor was there a single instance of delay in repayment of the Imperial Bank's due by any co-operative bank in Madras. My information is that the position is the same elsewhere.

7. The Maclagan Committee in recognising these undrawn cash credits with the Presidency Banks were influenced by weighty considerations, one of them being, to use their own words that margins available for income are too low to permit large portions of the capital of co-operative banks being invested on unremunerative terms, and that, instead of these margins expanding there would be a tendency for them to contract with the development of the movement.

8. In Madras after a great deal of enquiry the Local Government in their G. O. No. 1427, dated 3rd August 1920 laid down that fluid resource should

denote the cash balance on hand with the co-operative banks *plus* undrawn cash credit with the Bank of Madras *plus* 80 per cent. of the market value (as noted in the daily papers) of Government promissory notes. The G. O. set out the correspondence that passed between the Local Government on the one hand and Sir Bernard Hunter and Sir Norman Murray on the other. The Government included the undrawn cash credit balance with the Madras Bank among the items of fluid resources after satisfying themselves from the replies of the two gentlemen that implicit confidence might be placed in the Bank of Madras not to withdraw cash credit in such a way as to endanger the co-operative banks. The G. O. may be asked for by the Committee.

9. Central and Provincial banks are expected to further reduce their lending rates so as to make money available to ultimate borrowers at cheaper rates. If the existing cash credit facilities on co-operative paper are curtailed and the margins are thereby reduced the existing rates to borrowers instead of being reduced may have to be enhanced.

10. Since 1926-27 the Imperial Bank has been seeking to curtail this facility. In Madras the matter was definitely brought up before the Townsend Committee on which Mr. Stocker of the Imperial Bank was a member. The majority recommended that the existing facility should not be curtailed but strengthened by making the moral certainty of its continuance a legal certainty. The minority led by Mr. Stocker however, recommended that the accommodation should be curtailed. They said "we suggest that for the present 25 per cent. of the fluid resources should be allowed in the shape of undrawn cash credit with the Imperial Bank; the balance should be held in cash and Government securities." But the Imperial Bank did not accept even the minority recommendation and notified that the entire accommodation would be withdrawn in five years (1/5 each year) commencing from 1st January 1930; and 2/5th has been withdrawn already.

11. The main reason given for this action is that it would be unsafe for co-operative banks to rely on Imperial Bank in times of financial stress and that it would be safer for them to build up their own fluid resources. Neither the minority of the Townsend Committee, nor the Registrar in his communication announcing the decision of the Imperial Bank alluded to any apprehension that the Imperial Bank might lose its money. In fact the D. P. notes of the best societies are selected for negotiation to the Imperial Bank for this purpose and the Madras Provincial Banking Enquiry Committee report that the quality of this class of paper is improving instead of deteriorating. So the deterioration in the working of some societies and overdues have no connection with this action of the Imperial Bank.

12. The foreign Experts have expressed the view that the request of the Co-operative banks in the matter is reasonable and recommended that the Imperial Bank might continue the facilities. The position in other countries is not investigated. But the European members of the Townsend Committee including Mr. Stocker made the following observation," We understand that in some cases (co-operative) banks are linked directly with Joint Stock Banks by election of directors common to both or in some other way, and *that in others there is a form of Government guarantee.*" The Imperial bank being the banker of the State the co-operators are seeking the assistance from the State through its bankers. The Co-operative Banks leave the conditions to the Imperial Bank and only such paper as will satisfy the standards laid down by the Imperial Bank will be offered.

Proceedings of Discussion with Sir Osborne Smith, Saturday the 21st March 1931.

Sir Purshotamdas Thakurdas. I suppose you would like to tell Sir Osborne Smith, on your behalf and mine, how sorry we were that he could not join the Committee when we had the benefit of the opinions of our experts from overseas. But he has given the reason for this very fully in a telegram which he sent to the Chairman. However, better late than never, and we are, I am sure, very pleased to have Sir Osborne Smith here even though it be for a few hours. As the Chairman told you, he has got some other engagement, and he expects, if possible, to be here till 4 P.M.

I think we should first begin with the questi ns on Rural Finance which we left over for further information from Sir Osborne Smith. I wonder, Doctor Hyder, if you would care to begin.

Dr. Hyder: Being a neutral man I was asked by the Chairman to ascertain from Sir Osborne Smith the reasons which led the Imperial Bank to change its policy and withdraw the facilities for cash credits which they had given to the co-operative movement. Having performed this duty I will now listen with attention to whatever Sir Osborne Smith may have to say.

Sir Osborne Smith: I have nothing to add to Mr. MacDonald's evidence beyond asking whether you have pursued the recent reports of the Registrars of Co-operative Societies and the latest Balance Sheets of these Societies ? If you have the increasing overdues will be forced to your notice. Such overdues conflict with my policy of seeing that seasonal produce and cultivation advances are seasonally cleared.

The reasonable policy of the Imperial Bank to Co-operative Banks has been clearly set out by Mr. Lamond on the 19th August last and I will only add that I consider it generous treatment to spread the period of convertibility from Pro-Notes to Government securities to 5 years.

Sir Purshotamdas Thakurdas: He put forward the same thing as a sort of reason in a number of questions he put to Mr. Pochkhanawala on the 19th August at Poona.

Dr. yder: I started by saying that I was commissioned as a neutral to put questions to Sir Osborne Smith on behalf of the co-operators. Having done that I would leave the matter to my colleagues to pursue the matter, and I would listen with an impartial attention.

Mr. Ramdas Pantulu: Sir Osborne Smith has referred to balance sheets and overdues. I will only bring to his notice that neither the Registrar nor the Imperial Bank in their communications to us have in the least referred to the fact that the overdues are excessive. I have got the original documents with me. Will you kindly see paragraph 11 of y note. Again I will ask you to look at paragraph 5. Please see paragraphs 6 and 8, also 10 and 12 of "the position about the Cash Credit allowed by the Imperial Bank to Provincial and Co-operative Banks." The question about the same societies being there does not arise, because nobody will argue that every society is bad. I agree that some societies are bad, but the notes of A class societies are offered to the Imperial Bank. In every province the Registrars classify the societies under five heads: A, B, C, D and E. A are excellent societies functioning very properly, B are societies in which the overdues are very small C are societies in which the overdues are something like 25 per cent.

D are indifferent societies and so on. After all the whole amount in India is 73 lakhs and there has not been a single case of default, delay or loss so far. Therefore this is merely, if I may say so, an attempt to cripple the co-operative movement. If the Imperial Bank does not want to help us, they can frankly say so.

Sir Osborne Smith : You admit that some of the societies are very bad. We have no intimate knowledge of the position of these societies and the Imperial Bank have no control over them. With regard to your statement that in no case have loans been extended, I say that in very many instances loans have been extended. The policy of the Imperial Bank has been clearly set out by Mr. Lamond. In the interest of stability I think all banks should carry adequate liquid resources. I will favourably review applications from A and B Societies for moderating the terms. I may accept 70 per cent. Government Loan and 30 per cent. pro-notes, more I will not say at present except to emphasize that all Pro-Notes lodged as security must be *approved.*

Mr. Ramdas Pantulu : I agree that it is better for co-operative societies to build up their own resources, but please see paragraphs 7 and 9. The position is based upon the service which the movement is giving to the agriculturist. It is a concession and the question is whether the concession should be continued or not. There is no question of any claim of right. With regard to your observation that some societies are bad—

Sir Osborne Smith : That was not my observation, it was your own.

Mr. Ramdas Pantulu : Paragraph 5 shows that you only take paper of a particular description certified by the Registrar to be in order and these pro-notes are not accepted unless they belong to A class societies. If there are 700 joint stock banks and 500 of them are bad, is there any reason why you should curtail facilities for the 200 of them which are good ?

Sir Osborne Smith : It is a very difficult question to differentiate, and it does not get away from my contention that banks should not expect to be mothered for ever and they should have their own liquid resources.

Sir Purshotamdas Thakurdas : I do not think that co-operative societies want to be nursed for ever. What they feel is that at present their position is such that they cannot get on without help ; whether they want it for the next ten or twenty years is a matter of detail which can be settled in the light of experience in the future, but their objection at the present moment is to the withdrawal of the accommodation already given within five years of which notice has been given.

Mr. Ramdas Pantulu : We are only asking for the facilities till the Reserve Bank is established. In fact the Maclagan Committee and the Townsend Committee have both said that when the Reserve Bank is established, we ought to be able to take advantage of it by satisfying the conditions that may be imposed by it.

Sir Osborne Smith : The Imperial Bank are unduly generous in giving five years. Why should the Imperial Bank supply liquid resources to any bank ?

Mr. Ramdas Pantulu : You are under an obligation to do it, because most of your free balances consist of revenue paid by argiculturists and I think the State has an obligation to render service to the agriculturist and you as State bankers have the obligation to do it.

Sir Osborne Smith : We are not State bankers, we are bankers for the State.

Mr. Ramdas Pantulu : If you say that you have no obligation to render any assistance to the agriculturists, but only to keep the free balances placed by them with you, then I have nothing to say.

Sir Osborne Smith : We are rende ing you as istance, and I think five years is quite a reasonable time.

Mr. Ramdas Pantulu : We must then agree to differ.

Mr. Devadhar : In the course of the examination of witnesses at Poona. I asked several representatives of commercial banks, especially European representatives whether I could take it that their attitude towards the co-operative movement was generally sympathetic. I take it that your attitude would be more or less sympathetic also.

Sir Osborne Smith : Absol tely sympathetic.

Mr. Devadhar : As Mr. Ramdas Pantulu has pointed out some of our societies are bad, but I think that kind of description would apply to every human institution. If a few banks are bad, does that mean that others which are good should not get a y facilities from you ?

Sir Osborne Smith : We have had rather painful experience of this type of advances ; it is a question of adequate protection and security. I should quite frankly say that we have lost money in many instances. Produce in some ases is stored against the doors so that we could not properly enter and inspect. We have no facility for inspection ourselves and have to rely on others.

Mr. Devadhar : Would you not trust an organisation like the provincial bank ?

Sir Osborne Smith : I would not trust anybody as a matter of general policy.

Mr. Ramdas Pantulu : The questi n of produce loans is altogether different from cash credit.

Sir Osborne Smith : The pronotes practically cover produce or cultivation loans.

Mr. Ramdas Pantulu : No, these are used only for two purposes under your agreement, namely, to advance short term loans, and for fluid resources. Cash credit is never used for produce loans. The unlimited liability of all the members is sometimes worth several lakhs.

Sir Osborne Smith : Only until one comes to collect it.

Mr. Ramdas Pantulu : I do not think the information you have is really based on experience.

Sir Osborne Smith : It is really based on experience. I can tell you one thing, we will examine each case on its merits.

Mr. Ramdas Pantulu : So far as Madras is concerned, you have much more Government paper in your coffers than we want and if you withdraw the facilities, we would not suffer ; it is more a question of the margin and the ultimate loss which the co-operative movement will suffer by the withdrawal of facilities.

Sir Osborne Smith : What is the objection then ?

Mr. Ramdas Pantulu : The ultimate lending rate cannot be maintained at nine per cent. If you withdraw the facility. I do not think we can lend at 9 per cent., but we will have to put up the rate at least by one per cent. If the agriculturist is prepared to pay more and if your policy is to see that the agriculturist pays more interest on his loan, we certainly have no objection, because I do not think that the movement will be otherwise hit. I can to-day replace all your paper. If it is done, it will immediately reduce the profit by a large amount, necessitating our putting up the lending rate to the central banks. We are borrowing at 7 and lending at 6 and we have to put up that

rate. Central banks will put up the rate to its members. We are only concerned with one particular aspect of it, we are not anxious to see that the Imperial Bank is tied down to any obligation. If all of us make up our mind to-morrow that the rates in Madras may be put up to 10 or 12 per cent. to the agriculturist, the whole thing will work quite smoothly. We do not make profits in the way banks make profits. Without putting up the rate of interest to the agriculturist, dividends may be cut down to 6 per cent. instead of 9 per cent. We will try every method of maintaining the present rate of interest to the borrowers, but if we do not succeed, we will put up the rate.

Sir Osborne Smith : I can only say that I am sympathetic to the development of co-operative banking, because I think it is the only way that the banking habit can reach many parts of the country, but at the same time I would not agree to the policy of giving facilities to every society. If you like to put forward individual cases, I have no doubt that we will relax to a certain extent, and each case will be considered on its merits.

Mr. Devadhar : Let us take the case of the Bombay Provincial Co-operative Bank. You probably know that we were in the enjoyment of cash credit to the extent of four lakhs, and subsequently even to the extent of about 8 lakhs. Later on we were told that these would be withdrawn because the Bank had issued debentures. The raising of debentures does not as a matter of fact reduce the security or the safety of the Imperial Bank.

Sir Osborne Smith : If I remember aright, these debentures were a charge on the whole of the assets.

Mr. Devadhar : The Royal Commission on Agriculture says that that should not be considered a very serious impediment.

Sir Osborne Smith : Surely it is an impediment.

Sir Purshotamdas Thakurdas : We discussed that question in the Committee and we came to a certain agreement.

Mr. Devadhar : Some societies may be described as bad for whom you may like to curtail your assistance, but would you be prepared to say that assistance should be given to A class and B class societies ?

Sir Osborne Smith : I have told Mr. Ramdas Pantulu that each application will be considered on its merits.

Mr. Devadhar : The examination will not be made by you, because we get applications from the various societies, A, B, C, etc., and if you say that the societies for whom you make assistance available should be A or B class societies, statements will be prepared and sent to you. Will that meet your objection ? A class societies are considered to be the safest from several points of view, *e.g.*, regularity of payments, maintenance of accounts, no default, clever and honest management, and a certificate to the effect is given by Government auditors.

Sir Osborne Smith : Our objections would be partly met, but the lender must have the right to approve the security and we say you should have a certain proportion of Government securities to pledge for your cash requirements

Mr. Devadhar : Unless we resort to some other methods, this would not be possible. If a village bank works well, the tendency for it is always to expand its work, your idea is that in the course of five years the village bank should build up its own capital.

Mr. Ramdas Pantulu : There is some misapprehension. No society ever applies for cash credit to the Imperial Bank. It is the central bank or the provincial bank that applies on the collateral security of the promissory notes of the societies. Whatever the society has is given to the central bank which keeps all the resources, therefore it is the central bank that applies. There is no question of A class societies building up any resources of their own.

Mr. Devadhar : But it may be suggested that the money which is made available by means of cash credit should be utilised for the purpose of financing A class or B class societies.

Sir Osborne Smith : You will be taking the responsibility.

Sir Purshotamdas Thakurdas : Let me put the question in the way I understand it. The paper which is to be given to the bank should be first class paper, namely, paper of societies which are recognized by the Registrar as A-1 for example A class paper, where there is no default, the society is well managed, *etc.*, or B class paper where the default, if any, is very small or the default occurred in respect of a comparatively nominal failure. The question is whether, if it was undertaken that the paper of these two societies should be given to you by the bank, you would be prepared to continue the facilities which you have sought to discontinue within five years.

Sir Osborne Smith : How are you going to finance these various classes or societies ?

Mr. Devadhar : We have got funds, and we would release them. The Provincial Co-operative Bank at present has, I think, a turnover of something like 2 crores of rupees.

Mr. Ramdas Pantulu : Moreover, part of the cash credit you give on Government paper and part on co-operative paper. Government paper gets the larger place.

Sir Osborne Smith : The point I wish to make is that D and C class societies which you admit are not nearly as solvent as A class societies, and your position might consequently be jeopardised.

Mr. Ramdas Pantulu : They are ultimately solvent, but they are not so liquid. They are frozen to a certain extent.

Mr. Devadhar : You seem to be under the impression that we run a great risk in financing the C and D classes of societies. The differentiation between A and B and C and D does not mean that there is much difference between bad and good societies. We have got our own inspectors and our own staff and the unlimited liability of the societies means a good deal. If there is any risk at all, it is in that some of the societies would be longer in repaying their advances, but if the seasons are good, certainly the returns will be very good.

Mr. Ramdas Pantulu : I think Sir Osborne is right ; the Imperial Bank runs a certain amount of risk. The Imperial Bank expects to get back the money from the repayment of the societies. It is not a question of their being solvent, the bank may recover it, but it would not be coming on the due date. But what I say is that the accommodation that the Imperial Bank gives of 40 or 50 lakhs is more than counterbalanced by our repayments from regular societies.

Sir Osborne Smith : What proportion of Government securities would you be prepared to pledge ?

Mr. Ramdas Pantulu : The present position is that the Imperial Bank has given us 17 lakhs against co-operative paper and 30 lakhs against Government paper. Out of the 17 lakhs you have withdrawn two-fifths.

Sir Purshotamdas Thakurdas : Mr. Ramdas' point is mentioned in paragraph 10 of his paper. He wishes to know whether the minority recommendation of the Townsend Committee, if accepted by the Imperial Bank, would be agreeable to you.

Mr. Ramdas Pantulu : 47 lakhs is the total cash credit which our bank enjoys from the Imperial Bank at present. Out of this 30 lakhs were against Government paper and 17 lakhs against co-operative paper on 31st December 1929. On the 1st January 1930 one-fifth of it was cut off and another one-fifth was cut off on the 1st January 1931. Therefore, two-fifths of 17 lakhs has gone away. If there is no further curtailment, it will work up to 25 per cent.

Mr. Devadhar : In the Bombay Presidency this kind of facility is only claimed by the Provincial Co-operative Bank, whereas in Madras individual central banks are getting it. The total amount in Madras is much bigger than we asked for in Bombay. This point may not be set up as an argument, but I want to draw your attention to it.

Sir Osborne Smith : I suppose you realise that we can demand the return of our advances when we are in difficult times.

Mr. Devadhar : It would be difficult for us, because we have our funds invested in other banks.

Sir Osborne Smith : If we were in difficulties, the other banks would be in difficulties also.

Mr. Devadhar : It is only a question of 8 lakhs so far as our banks are concerned. I do not think it would be difficult for the Provincial Co-operative Bank to meet that amount even in a single day.

Mr. Manu Subedar : What percentage of your cash credits, apart from your business with Provincial Banks, do you consider is payable on demand ?

Sir Osborne Smith : I can not say.

Mr. Manu Subedar : Would you say that 70 per cent. of the accommodation given to other constituents than the Provincial Banks was really recovered in due time ?

Sir Osborne Smith : It would not be.

Mr. Manu Subedar : Therefore, what I say is this. That some portion of the advances of all the banks are completely frozen, some portions are partly frozen and others are less partly frozen. I can very well understand the aim of the Imperial Bank in making advances which can be recovered with ease, but surely you do not claim that your advances and accommodation on pronotes on two signatures given to other parties are judged by the same principle of perfection and soundness ?

Sir Osborne Smith : All that I say is that this is a time when you should have your resources in more of liquid form. If you will make a representation to me on the lines of the argument just placed before us I will give it the very serious and sympathetic consideration. That is all that I can say.

Mr. Devadhar : You know the Registrars of Co-operative Societies are very responsible officers in the Provinces and they have approved of the principle of getting cash credits.

Mr. Ramdas Pantulu : Mr. Lamond put a question to the Foreign Banking Experts on this point and Dr. Jeidels suggested that the Imperial Bank of India should not curtail its cash credit facilities to the co-operative banks.

Sir Purshotamdas Thakurdas : The Co-operative part of our discussion with Sir Osborne Smith is now over. We shall now proceed to the next question, replies by Sir Osborne Smith to Mr. Manu Subedar's questions.

Answers by Sir Osborne Smith to questions by Manu Subedar.

Mr. Manu Subedar : What is your view with regard to the competition of a Bank aided in any manner by State funds, or deriving higher status on account of its association with Government with private and joint stock enterprise in banking in India ?

Sir Osborne Smith : My views would vary according to the circumstances of individual cases. A Bank that has the confidence of Government to the extent of attracting its balances naturally enjoys added prestige, but Governments usually exact (and this applies particularly to India) a full return in service for the value of minimum balances. At seasonal times Government balances are largely in excess of the compensating minimum, but again at such times, such balances are useless in India because they cannot be invested or profitably used. Generally speaking however a Reserve Bank controlling currency should not compete with Trading Banks or risk such business.

Mr. Manu Subedar : If it was decided that the Reserve Bank should be a separate institution, is there any need for a separate Imperial Bank of India Act ? Is there any objection to the Imperial Bank becoming an ordinary Joint Stock Bank under the Indian Companies Act on the same basis as any other Joint Stock Bank in this country.

Sir. Osborne Smith : I do not diverge from my view that the Imperial Bank should become the Reserve Bank. Should, however, a separate Reserve Bank be established, it would be necessary for it to have agencies in the various centres, as it would be wholly unprofitable and an iniquitous charge on the Central Institution to open sufficient branches for its purpose. The sole institution in India with sufficient branches to adequately perform agency duties is the Imperial Bank, and as such duties would entail the management of Currency Chests, Treasuries, etc., the Imperial Bank Act suitably amended would be advisable, indeed necessary as the Bank must have a status and responsibility apart from other banks.

Mr. Manu Subedar : When the Imperial Bank thus ceases to have any special privileges or special obligations, if, in the interests of the country it is considered desirable that they should engage on any one of the following lines of work, is there any special difficulty in making a special contract with the Imperial Bank, by which they will engage on this work along lines approved by the Government and they would be entitled to remuneration, compensation or subsidy for this service :

(*a*) Dealing in foreign exchange and discounting of foreign bills both export and import,

(*b*) Lending out to industrial concerns for—

(i) Initial capital,

(ii) block capital,

(iii) working capital against industrial security and for periods suitable for the industry.

Sir Osborne Smith : I do not follow whether you mean "dealing in the capacity as agents for the Reserve Bank or Government" or whether the Imperial Bank would shoulder the risk attendant to such transactions and use its own funds for the purpose. If it is to use its own funds the Imperial Bank could only operate to the extent of available resources. However you probably have in view operations on behalf of Government *in an agency capacity* as you mention "*lines approved by Government*" as I cannot conceive any sound banker allowing dictation by any outside body, Government or otherwise, in the conduct of his own business. If this is so

(*a*) no difficulty.

(*b*) (i) and (ii) I am wholly averse to a Trading (Commercial) Bank (and of course a Reserve Institution) supplying money for these purposes, although I am aware such business is done by certain Continental Banks who use Debenture capital and not deposits from the public for the purpose of such business.

(*b*) (iii) If this means advances pending the marketing of produce or industrial goods, yes.

Mr. Manu Subedar : Can you tell us why the rates for the discount of first class trade bills in India are the same, or higher than the Bank rate, whereas they are very much lower than the Bank rate in other countries ? What remedy would you suggest for the establishment of the bill market in India ? Do you see any inherent difficulties in the Indian situation preventing the establishment and growth of investment trusts to establish and help both the investors and banks as providing intermediate links and the division of the risks ?

Sir Osborne Smith : In most sound countries the currency is managed, and I concur in such a policy, as there is no practical alternative. The Bank Rate is in these countries at times ineffective, that is, the official rate is out of touch with the market rate. In such circumstances it may *pay* banks to discount below the official rate. The Bank Rate has a different meaning in various countries. For instance in England it is the minimum rate at which the Bank of England will discount approved bills or grant loans on approved security for the money market (other Banks and Discount Houses), but for its private constituents it may discount at market rate which as I have pointed out may be below the official rate. In India the Bank Rate is the rate at which the Imperial Bank will grant loans against Government Securities which are obviously at least an equally acceptable security as first class bills, the rate for which may vary according to the class of bill, or according to whether the money market conforms to or is out of touch with the official rate. It must be remembered that agriculture is overwhelmingly India's chief industry and bill with fixed dates of maturity are unsuitable for the ryot or produce dealer—it will therefore always be difficult to secure bill substitution for loans and cash credits in India.

Development must be on the lines of rediscounts, and abolition of the present heavy stamp duty on bills will assist a bill market. Discount Houses (which are more or less essential to a stabilised bill market) might be built up from reliable native bankers of unsullied reputation and with substantial capital, and upon a deposit of a cash guarantee.

There are no inherent difficulties in the establishment of Investment Trust in India, but the success of such depend on economical efficient management and control by a Board of the highest integrity.

Mr. Manu Subedar : What is your view with regard to the nineteen foreign banks, which are working not only for foreign exchange finance, but for doing banking business generally ? Did their operations and existence menace the Presidency Banks and force them into an amalgamation ? Is it true that Lloyds and other institutions are at present cutting into the business of the Imperial Bank in certain places ? What is the reason for prohibiting the Imperial Bank from taking deposits in London ? Should such restrictions continue with regard to the Imperial Bank and with regard to the Reserve Bank ? Would you allow the deposits in India from Indian money to swell the working capital of foreign banks established in India ? Would you advocate the receipts from postal savings bank and from post office cash certificates to remain with the Reserve bank for being used for the finance of trade and industry rather than for being marged in the general balances of Government as the case now ?

Sir Osborne Smith: Banks are for the benefit of the public and the more banks there are the greater facilities the public will enjoy. There should be no discrimination against sound institutions merely because they are non-Indian, the sole qualification should be stability. The amalgamation of the Presidency Banks was in no way due to the competition of the Exchange Banks. No doubt other institutions are freely competing with the Imperial Bank.

The prohibition of acceptance of deposits in London is allied to the prohibition of exchange business and its continuance or not should be similarly related.

Yes, there should be no interference with the deposit of Indian money with foreign banks in India. I am strongly against any interference in matters of this sort as people should have the right to invest their money as they wish : the more banks there are that compete for their money, the greater facilities the public will enjoy.

The right of deciding the method of utilisation of postal savings bank balances and post office cash certificates must rest with Government who do the work and guarantee interest and repayment.

Mr. Manu Subedar : May I ask whether you would have any objection to the Reserve Bank using any joint stock bank or indigenous banker as its agent at a place where the Imperial Bank has no branch ?

Sir Osborne Smith : I think that was conceded in the Reserve Bank Bill. They will be member banks.

Mr. Manu Subedar : Would you object to the Reserve Bank having direct relationship with a joint stock bank or local bank or indigenous banker of standing at places where the Imperial Bank has no branches ?

Sir Osborne Smith : It may be necessary. I am, however, of the opinion that the matter will require further consideration. I cannot give an answer straightaway.

Mr. Manu Subedar : What is your present feeling in the matter speaking generally ?

Sir Osborne Smith : It might, of course, tie down the hands of the Reserve Bank to some extent if the Imperial Bank had no branches at certain places.

Mr. Manu Subedar : Therefore, you accept the principle that the Reserve Bank should be free to choose its own agents in the country where the Imperial

Bank has no branch. Take for example a bank in this country who wants to have an agent in Berlin.

Sir Osborne Smith : I am not in favour of any external agency at all.

Mr. Manu Subedar : Then what have you to say with regard to internal agencies ?

Sir Osborne Smith : I agree that it may be possible to do so far as internal arrangement is concerned, but the discretion should rest with the Board of Reserve Bank.

Mr. Manu Subedar : If the Reserve Bank uses a member bank or banker as agent, that member bank or banker would not require a special constitution to deal with the agency work. What are your views on this ?

Sir Osborne Smith : This is a question too big to answer unequivocally. I would require time to minutely consider the same.

Mr. Manu Subedar : You may take your own time. All that we are trying is to get the opinion of an experienced banker of your position and standing. I have no objection to your sending us a written reply later. You say that the Imperial Bank Act should be suitably amended to give it a status and responsibility apart from other banks. May I know what your objection is to the Imperial Bank registering itself as a joint stock bank. If the agency work justified by a separate Act either the other agents should have a special constitution or the Imperial Bank should not seek a special constitution on this account alone. That is my point.

Sir Osborne Smith : I will submit my reply to this point also later on.

Dr. Hyder : In answer to one question you say " I am wholly averse to a Trading (Commercial) Bank supplying money for these purposes although I am aware such business is done by certain Continental Banks who use Debenture capital and not deposits from the public for the purpose of such business." May I know what you are averse to.

Sir Osborne Smith : I am averse to lending out on long term basis with funds secured through short term deposits.

Dr. Hyder : I suppose you are aware of conditions in Germany.

Sir Osborne Smith : As far as I am aware Germany is the only country which is doing business of that kind successfully.

Dr. Hyder : But the credit which is given out in the shape of liquid resources is converted into long term debenture loans ?

Sir Osborne Smith : It may be, I cannot say.

Dr. Hyder : I take it that you are not averse to commercial banks granting credit against the security of liquid resources, such as stocks, etc.

Sir Osborne Smith : Oh, not at all.

Mr. Manu Subedar : In answer to my question you say " agriculture is overwhelmingly India's chief industry and bills with fixed dates of maturity are unsuitable for the ryot or produce dealer ". I can understand their being unsuitable to the ryot but I am not clear with regard to their being unsuitable to the produce dealer. Agriculture ends at the moment when the producer has parted with his goods and trade starts, or in other words trade begins where agriculture ends. Is it not ?

Sir Osborne Smith : yes.

Mr. Manu Subedar: And the volume of this trade in India internal as well as external is enormous enough to justify an expectation that bills might be forthcoming, except to the extent to which cash credits are preferred ?

Sir Osborne Smith: Yes.

Mr. Manu Subedar: You further say that "it will, therefore, always be difficult to secure bill substitution for loans and cash credits in India". May I know your views on this statement ?

Sir Osborne Smith: That is the case all over the world, not only in India. Ths Cash credit system is growing all over the world.

Mr. Manu Subedar: Is it because bills of certain maturity are preferred by the market. If the period of maturities were taken to be 6 to 9 months in the case of agricultural bills, you still think that this difficulty will continue ?

Sir Osborne Smith: I think short term bills are more popular now.

Mr. Manu Subedar: That is no doubt true from the banker's point of view but what are your views from the public point of view which you have stressed in other parts of your paper.

Sir Osborne Smith: I would not favour the Reserve Bank taking 9 months bills.

Mr. Manu Subedar: Then to what period would you restrict it to ?

Sir Osborne Smith: Nothing more than six months.

Mr. Manu Subedar: Would that dictum apply to agricultural bills alone ?

Sir Osborne Smith: It applies to all bills.

Mr. Manu Subedar: I agree that bills cannot totally replace the case credit system. But do you not think that bills can take the place of cash credit even to the extent of creating a reasonable volume of bills to establish a bill and discount market in this country ?

Sir Osborne Smith: I do not think voluntary substitution would be popular. It will have to be done compulsorily by banks for rediscount purposes.

Mr. Manu Subedar: If banks got special rediscount facilities then they, in their own interest, might encourage the bill habit.

Sir Osborne Smith: Yes.

Mr. Manu Subedar: I only wanted to get a little more clear on the point. After the measures which you have suggested in the second part of your answer to my question about the abolition of the heavy stamp duty on bills and rediscount facilities, you expect a sufficient volume of bills will be created in this country, compulsory or otherwise, to establish a bill market in this country ?

Sir Osborne Smith: Yes in time.

Mr. Manu Subedar: Therefore, the position is not so hopeless as your remark would seem to appear.

Sir Osborne Smith: I do not make out the position to be hopeless at all. If it were so, the Reserve Bank would not function at all.

Mr. Manu Subedar: I will now request you to explain to me the meaning of the following sentence which you have made in answer to my question. "Discount Houses might be built up from reliable native bankers of unsullied reputation and with substantial capital, and upon a deposit of a cash guarantee."

Sir Osborne Smith: I mean "Indian Bankers" by my expression "Native Bankers". I do not think it will be in the province of the Reserve Bank to accept a Bill Broker without strictest scrutiny of his position.

Mr. Manu Subedar: I am not averse to any such scrutiny but I want to know how it will work.

Sir Osborne Smith: These cash guarantee deposits will earn interest.

Mr. Manu Subedar: The Reserve Bank is not permitted to give any interest.

Sir Osborne Smith: The agent bank will do it.

Dr. Hyder: With regard to these Bill brokers you say that they must have substantial capital and must be men of unsullied reputation, and they should also deposit a cash guarantee. To make a beginning would you insist on the fulfilment of all these conditions? You are aware our object is to develop the bill market in this country.

Sir Osborne Smith: That was how it was done in England and I do not see any reason why it should not be done here as well. My view is that until such men are available the position cannot be improved.

Mr. Manu Subedar: I see you want a cash guarantee from indigenous bankers. Would you kindly explain whether it should be taken invariably or in some cases?

Sir Osborne Smith: Invariably.

Mr. Manu Subedar: How much cash would you ask the indigenous banker to deposit with reference to the amount of rediscount given.

Sir Osborne Smith: That is a matter for further consideration. It all depends upon the business he is doing.

Mr. Manu Subedar: Suppose he wanted rediscounting facilities to the limit of Rs. 5 lakhs. What cash deposit would you expect?

Sir Osborne Smith: Probably 10 per cent.

Mr. Manu Subedar: You have no objection to his expecting interest on his deposit.

Sir Osborne Smith: No. If the deposit is with the Imperial Bank it would be quite reasonable to give interest on the deposit.

Mr. Manu Subedar: If e could leave Government securities with the Imperial Bank the bank could deal with him direct.

Sir Osborne Smith: That will be the same thing.

Mr. Manu Subedar: With regard to the establishment of investment trusts in India is it your feeling that subject to the provisions you have detailed—economical, efficient management, and control by a Board of the highest integrity there is no inherent difficulty?

Sir Osborne Smith: None whatever. As a matter of fact we were contemplating the formation of an investment trust in the last 12 months, but as the times have become so bad a postponement has almost become necessary.

Mr. Manu Subedar: Bad times, in what sense? Prices are fluctuating widely, and are probably falling. You start with an initial handicap. If you start at a time of rising prices you would probably succeed.

Sir Osborne Smith: Yes capital would be readily available.

Mr. Manu Subedar: You do not think that the ruling rates of interest in India which are considered higher than ruling rates in other countries are an insuperable obstacle to the starting of an investment trust.

Sir Osborne Smith : No. I should say in India 6 or 7 per cent. could be readily obtained. The success of an investment trust will be almost assured provided investments are well spread and the institution is efficiently and economically run.

Mr. Manu Subedar: Nor do you think the fact that the range of investments in India is not as big as the range available for investment in the New York or the London Stock Exchanges is an obstacle to the starting of an investment trust ?

Sir Osborne Smith ? No. I think it can be started. I am perfectly certain that, if Indian capital is not forthcoming, much English capital can be got here. I have been offered it actually.

Mr. Manu Subedar : It is just because of these two factors—high rates of interest as compared with other countries and less range of securities—perhaps the field for an investment trust is much bigger, if properly handled. The difficulty is that there are no models and there is no experience in India in this direction, but otherwise you would consider the field extremely favourable or even more favourable than in other countries because many of the investors in India do not know what is a good investment ? It will be of help to the public and to the banks ?

Sir Osborne Smith : Yes.

Mr. Khaitan : I see you consider the stamp duty on bills is very heavy.

Sir Osborne Smith : At the present time it will not be reduced on account of budget difficulties. Government could be persuaded to reduce the stamp duty when the Reserve Bank is actually in prospect.

Mr. Khaitan : We have considered several suggestions in regard to the establishment of discount houses. What do you think of the following suggestion ? The Committee are not in favour of any compulsory measure in regard to bringing indigenous bankers within the Reserve Bank Scheme. Such of the indigenous bankers as desire to be placed on the approved list of the Reserve Bank and are admitted to rediscounting facilities by that institution up to the limits prescribed by it, should satisfy the following conditions—Such of the indigenous bankers as are engaged in banking proper should be eligible to be placed on the approved list of the Reserve Bank in the same manner as joint stock banks ; they should conform to the standard regarding owned capital prescribed for this purpose by the Reserve Bank ; they should agree to keep proper books of account in the usual recognised manner and to have them audited annually by one of the recognised auditors ; these books should also be available to the Reserve Bank for inspection and audit. The Reserve Bank should see that no institution enjoying rediscount facilities charges what in its opinion are high rates of interest. What do you think of this scheme ? Are there sufficient safeguards in it ?

Sir Osborne Smith : I agree generally. But I think the grant of rediscounting facilities should not be by right of being a member, but should depend upon selection by the Reserve Bank.

Mr. Khaitan : That is so. I have mentioned the conditions.

Sir Osborne Smith : I think that is very sound.

Mr. Khaitan: If these conditions are accepted by such bankers as want rediscounting facilities from the Reserve Bank, would you still insist upon their depositing a cash guarantee ? Or Government promissory notes, as suggested by Mr. Manu Subedar ?

Sir Osborne Smith: Every member would automatically have to make a deposit.

Mr. Khaitan: We considered that point in the case of joint stock banks and indigenous bankers. There will be difficulties for some years to come to indigenous bankers accepting Reserve Bank loans on this condition which would be a new condition to them.

Sir Purshotamdas Thakurdas: There is this difference. Joint Stock banks are limited liability companies. In the case of indigenous bankers the liability is unlimited.

Sir Osborne Smith: I would still insist on the cash guarantee. It need not be a large percentage.

Mr. Khaitan: It would be a hardship in this sense that at the present moment, when they discount bills in the market, they have to give no kind of security except of course, the required number of signatures on the paper. It is not simply a paper signed by them alone, there will be other signatures on the paper. When they get their books audited by the examiners appointed by the Reserve Bank, the latter will come to know their financial condition and their way of doing business.

Sir Osborne Smith: It is quite possible they might lose all the capital.

Mr. Khaitan: They are not allowed to carry on trading operations. They should only do banking business.

Sir Osborne Smith: They might make mistake in their purchase of bills.

Mr. Khaitan: There are conditions about owned capital, etc. If the Reserve Bank finds they are discounting paper of unsatisfactory parties, they would have the discretion to limit or cancel the rediscounting facilities.

Sir Osborne Smith: I might give further consideration, if these conditions are complied with.

Dr. Hyder: Is it your view that investment trusts should attract the very large capital required for industries or concerns which do not at present exist—working capital or whatever you like ? If investment trusts put the money which they compel their members to pay, into shares of existing concerns, the position arises that other concerns which might be established would have no one as their god-father or god-mother.

Sir Osborne Smith: I have no objection to their investing in preference shares, debentures, etc.

Dr. Hyder: Not in ordinary shares ?

Sir Osborne Smith: No. You must invest your money in suitable investments. If you have not got them here you will have to go elsewhere.

Dr. Hyder: Then the investment trust would not have fulfilled the need which we have at present, namely, some institution which might divert capital into concerns which might be established.

Sir Osborne Smith: As a banker, if there are not sound investments in the country, I will send the money abroad. Otherwise you cannot pay dividends.

Mr. Manu Subedar: I would like to know whether the cash deposit indicated here is the same as the cash deposit under the Reserve Bank scheme? Or whether it is in addition?

Sir Osborne Smith: In addition, I would give it further consideration. It may be waived. But the other must not be waived.

Mr. Manu Subedar: In the other case you want a uniform system. Perhaps it may be better for some bankers to get the rediscounting facilities without the compulsory deposit. Does that not limit the field of selection?

Sir Osborne Smith: No.

Mr. Manu Subedar: I invite your attention to this statement. The amalgamation of the Presidency Banks was in no way due to the competition of the Exchange Banks. Were you in charge when the amalgamation took place?

Sir Osborne Smith: No.

Mr. Manu Subedar: I suppose after you took charge you saw the paper relating to this?

Sir Osborne Smith: No.

Mr. Manu Subedar: When you say 'in no way' that is according to your present information. If there is written information contrary to what you say, would you amend what you say?

Sir Osborne Smith: It may be so.

Mr. Manu Subedar: The public has two sides—one, the bank's constituents and the other the wider public interests in the country.

Sir Osborne Smith: I am speaking generally. If there is a monopoly, there will be a great fall in interest. And if indigenous banks make 20 or 25 per cent. profits, it will not be a reasonable proposition at all.

Mr. Manu Subedar: Twenty per cent. dividend is earned by foreign banks. Is that a reasonable proposition?

Sir Osborne Smith: I cannot discuss that. That is by reason of their accumulation of reserves.

Mr. Manu Subedar: Reserves are only deferred profits.

Sir Osborne Smith: I cannot think of any bank making any thing like 20 per cent. trading profit in India at present.

Mr. Manu Subedar: What are your views with regard to the entry of the Lloyds Bank in the Indian field. As you know, it has the second place in the U. K., it is one of the biggest banking institutions in the world, and it has power to compete, if it so chose, with any existing institution.

Sir Osborne Smith: Yes. I have no objection to its fair competition.

Mr. Manu Subedar: You would allow the competition of a lion and a lamb.

Sir Osborne Smith: I have no objection to competition remaining within the limits of legitimate banking. Lloyds Bank are competing in the banking field to a certain extent.

Mr. Manu Subedar: You do not consider the foreign exchange banks in this country, as a danger to the growth of Indian institutions?

Sir Osborne Smith: I think it might be more difficult to start Indian institutions in sea-port towns. But if the foreign banks will give similar and efficient service why not let them continue? It is all for the benefit of the public.

Mr. Manu Subedar : If people wanted to make a distinction between Indian institutions and foreign institutions, the other thing would come in. Where there are powerful institutions with large reserves Indians are bound to find it difficult to start their own institutions.

Sir Osborne Smith : That is right.

Mr. Manu Subedar : Then purely from the aspect of service you are of the view that the existing institutions should be allowed to do their work properly.

Sir Osborne Smith : Yes.

Mr. Manu Subedar : They are doing their work properly in the sense they are expanding their share of the internal trade of the country.

Sir Osborne Smith : Yes and giving efficient economical service.

Mr. Manu Subedar : Does the Imperial Bank feel their competition wherever they have branches in the country ?

Sir Osborne Smith : We have a lot of competition from them. I do not think they can quote more favourable rates.

Mr. Manu Subedar : The Imperial Bank borrows at a less rate than these banks ?

Sir Osborne Smith : The rate varies, but at the present time the Imperial Bank borrows at 3½ per cent. The foreign institutions borrow at from 4 to 4½ per cent. There are special circumstances at the present time which permit them to give higher rates. In this way they are able to give facilities to foreign trade.

Mr. Manu Subedar : They cannot compete very much with you, but they can with those banks which are obliged to borrow.

Sir Osborne Smith : I do not object to competition.

Mr. Manu Subedar : Do they compete as a matter of fact, or do they not ?

Sir Osborne Smith : They do to a certain extent.

Mr. Manu Subedar : Could you give us, or could you send us from your headquarters the deposit rates of the Imperial Bank—I understand they have come down in the last ten years—and also the rates, if there are any records of the foreign institutions.

Sir Osborne Smith : I have not got them with me but will send them on.

Mr. Manu Subedar : What is your view with regard to the prohibition of borrowing in London by the Imperial Bank ? I do not want to go into the history of it—it is all very carefully recorded. Would you like the power to borrow in London and do the exchange business, or would you like this restriction to go on ?

Sir Osborne Smith : I would like the power to borrow and do exchange business.

Mr. Manu Subedar : According to the records of Government Departments it appears that this power is not given because of the pressure of exchange banks. These felt that this would interfere with their business through their apprehension—I do not know whether they realise it, but others do—was not justified.

Sir Osborne Smith : I have no knowledge.

Mr. Ramdas Pantulu : The answer to the question shows that the reason is the same—whatever it is—in the case of prohibition of both the acceptance of deposits in London and the conduct of exchange business.

Mr. Manu Subedar: With regard to these deposits it is the feeling of many Indian witnesses who appeared before us, that these deposits represent the savings of the country, and they belong to the Indian people as a people, and all such savings are the first claim of Indian nationals: that is to say, of Indian banks, and, through these banks of their Indian constituents. Have you any strong objection to this feeling on their part?

Sir Osborne Smith: Foreign banks have been doing good service to India. There is no reason why they should not have a claim on these savings. If the money is not safe I would not lend it to them.

Mr. Manu Subedar: Have you anything further to support what you have said?

Sir Osborne Smith: I believe people should have the right to invest their money as they wish.

Mr. Manu Subedar: What do you anticipate if their right to invest their money in foreign banks is interfered with?

Sir Osborne Smith: I should say it would not be justified.

Mr. Manu Subedar: What would be the economic consequences?

Sir Osborne Smith: Probably rates will come down.

Mr. Manu Subedar: Any other consequences?

Sir Osborne Smith: I do not know; probably finance for trade would be more expensive.

Mr. Manu Subedar: Would not foreign banks be able to get money from their own headquarters?

Sir Osborne Smith: They may be, but.....

Mr. Manu Subedar: Should they be able to bring funds from their own headquarters, would not that enrich the Indian money market?

Sir Osborne Smith: They would bring it here for the trade season and send it home at the conclusion.

Mr. Manu Subedar: I understand that the Chairman of one of the Big Five (Lloyds Bank) said that they do Indian business without taking a single pound from London.

Sir Osborne Smith: I did see that statement, and it leads me to think they are not doing the volume of business some of the others are doing.

Mr. Manu Subedar: Even so, your suggestion is that they bring over their money seasonally?

Sir Osborne Smith: That is what they would do if they seasonally needed it.

Mr. Manu Subedar: They do not, therefore, engage any amount of London money in this country all the year round?

Sir Osborne Smith: I have no knowledge whether they do it or not, but I should not think so.

Mr. Manu Subedar: In a statement which was given to us by the Exchange Banks Association, we were told that on their total turnover on a particular date, taking several banks together, of 30 crores, the amount engaged in foreign bills was 6 crores and the balance represented loans in cash credits would not that show that actually for the financing of foreign trade all that money is not required?

Sir Osborne Smith: I understand they said that if there were 30 crores, 6 crores only were used for bills the balance for Finance pending shipment.

Mr. Manu Subedar : 6 crores were used for bills relating to foreign trade and the balance in cash credit loans ?

Mr. Khaitan : That was the statement given to us by the Exchange Banks.

Sir Osborne Smith : I do not know.

Mr. Manu Subedar : That statement would show that a large amount of deposits is used not merely for the financing of foreign trade, but also for doing internal business.

Sir Osborne Smith : It would indicate that—pending shipment.

Mr. Khaitan : We have got to consider that fact that a proper banking system is to be established in India for a long time to come. Let me take you back to the year 1914 and let us imagine that in that year the whole of the financing of foreign trade was done by German banks and that German banks had also gone into the interior of India. When war was declared in August 1914, what would have been the position of the economic system of India ?

Sir Osborne Smith : It would be very desperate but far fetched.

Mr. Khaitan : Bearing that in mind, would you advise that, situated as India is in respect of its obligations to make remittances for home charges (the calculation is about 70 or 80 crores per year as the return of foreign investments in the country), it would be quite safe for India to rely on non-Indian institutions for purposes of her foreign trade ? Also that those banks engaged in foreign trade should do a large part of their operations for internal purposes and that people who are trading and manufacturing in India should be tied down to non-Indian institutions for that purpose ?

Sir Osborne Smith : I do not say they should be tied. I have no objection to Indian exchange banks starting business but not with State Capital.

Mr. Khaitan : But would you not advise us that it is desirable in the circumstances that Indian exchange banks should grow up, so that the position may not become very desperate as you yourself put it ?

Sir Osborne Smith : I have no objection whatever to Indian exchange banks starting as no doubt they would, if big profits were in prospect.

Mr. Khaitan : Let us assume that there is a war between England, America and Japan, what would be the position ?

Sir Osborne Smith : I am sure I cannot visualise such a position.

Mr. Khaitan : But if such a thing happened, it would be desirable in the interests of the country that India should not have to rely on a foreign institution for the purposes of her foreign trade as also her internal trade.

Sir Osborne Smith : I certainly would not make that suggestion.

Mr. Khaitan : May I take it that you recommend the establishment of an Indian Exchange Bank ?

Sir Osborne Smith : I do not recommend it, I say that I have no objection to it in the slightest degree but I must emphasize not with capital supplied by the Government.

Mr. Khaitan : What is your experience as regards foreign banks receiving deposits in England ? I am not talking of legislation but of practice.

Sir Osborne Smith : Foreign banks attract a very small amount of deposits.

Mr. Khaitan : They often carry on business with money brought from their own countries ?

Sir Osborne Smith : I do not know, probably they do, the volume of business done by the Exchange Banks indicates that it is so.

Mr. Khaitan: I am told that foreign banks operating in Australia mostly do agency business for the nationals of their own country and carry on that business with the help of money brought from their own countries.

Sir Osborne Smith: I do not think they are allowed to receive deposits.

Mr. Khaitan: Your impression is that foreign banks in Australia do not receive deposits?

Sir Osborne Smith: I do not think they do.

Mr. Khaitan: Do you know why the Chartered Bank of India, Australia and China has the word 'Australia', in its name?

Sir Osborne Smith: Mr. Buckley might be able to tell you about it.

Mr. Khaitan: Mr. Buckley does not know about it.

Mr. Buckley: I do know. For the reason that we never wanted to go over. Our bank was formed at a time when it was not propitious to open a branch in Australia. There were two foreign banks operating in Australia, the Yokohama Specie Bank and the Comptoir.

Mr. Khaitan: There must be some reason for it.

Mr. Buckley: There is no law against it.

Mr. Khaitan: Supposing foreign banks (I am not talking of the existing banks) were allowed to come freely and carry on business in India without any restrictions whatsoever, having regard to the prestige which the existing foreign banks have built up in this country, would it be advisable to allow Indian depositors to deposit their money indiscriminately with any kind of foreign banks that come and operate in this country? Would it not be desirable to have some system of examination by the authorities of the country so that the depositors' interests may be protected?

Sir Osborne Smith: I do not know in what way you would protect their interests.

Mr. Khaitan: Some way ought to be devised.

Sir Osborne Smith: I have no objection to any legitimate audit.

Mr. Khaitan: You know that at the present moment with a few exception the business in the interior is being financed by indigenous bankers and indigenous banks. Assume for a moment that you are Indian. Would you advise that we should freely allow big non-Indian institutions to take the place of indigenous banks and bankers for the purpose of financing the internal trade or should we devise such a system as will ensure the growth of indigenous banks and bankers for the purpose of financing the internal business?

Sir Osborne Smith: But surely the non-Indian institutions would not continue very long if restrictions become too burdensome.

Mr. Khaitan: Should non-Indian institutions be allowed indiscriminately to take the place of indigenous banks and bankers that are existing at present or that may come into existence in future?

Sir Osborne Smith: Why not allow them to operate side by side?

Mr. Khaitan: There is a certain amount of business and if big foreign banks are allowed to operate in the interior, they will offer very strong competition with the indigenous system, would they not?

Sir Osborne Smith: Yes, but they are not going to operate preferentially. Why should not the indigenous banks also make profits?

Mr. Khaitan : It will depend upon the rates at which they attract deposits. If there is competition in regard to deposits between an existing joint stock bank and the Lloyds Bank, one of the Big Five, would not the latter be able to attract deposits at a lower rate than the former ?

Sir Osborne Smith : The joint stock bank may be more competent than the Lloyds Bank and work on lower establishment charges.

Mr. Khaitan : Having regard to the security offered by the Lloyds Bank, it would attract deposits at a lower rate and, therefore, be able to lend at a lower rate.

Sir Osborne Smith : Perhaps—it depends upon the confidence the joint stock bank enjoys.

Mr. Khaitan : Suppose some big bankers came to this country from Java and began to operate in the interests of their country ?

Sir Osborne Smith : Can they do it ?

Mr. Khaitan : If they are allowed to come unrestrictedly, they may. How would you then meet the situation ?

Sir Osborne Smith : I would place an embargo on the bank if it were unsafe or undesirable.

Mr. Khaitan : In similar circumstances, should you not also check foreign banks taking the place of indigenous banks and bankers ?

Sir Osborne Smith : I cannot see that. The public will be better served by a banks offering a lower rate of interest ; I think that is the main consideration cheaper public service.

Mr. Khaitan : But if big bankers come and are able to draw cheaply more money ?

Sir Osborne Smith : It is very doubtful if they can.

Mr. Rushforth : Regarding the point about the desire for an Indian Exchange Bank one must be guided a good deal by precedents, and the example of Japan has been brought to our notice to a great extent. We have been told that prior to 1880 the foreign trade of Japan was in the hands of foreign banks, but the Government of Japan helped Japanese banks with State assistance. I wonder whether you can give us any information on the example of Japan ?

Sir Osborne Smith : I repeat I have no objection to, indeed I would welcome an Indian Exchange Bank with capital subscribed by Indian Nationals. In Japan the Yokohama Specie Bank was in existence long prior to the Reserve Bank and I believe it still exclusively performs the Government Exchange operations.

Mr. Rushforth : Have they a monopoly ?

Sir Osborne Smith : I believe the Yokohama still has a monopoly and that the arrangement successfully functions.

Mr. Rushforth : You do not consider Japan an ideal example ?

Sir Osborne Smith : I think it essential that Government Exchange business should be performed by the Reserve Bank whose chief duty is to maintain internal and external credit.

Mr. Rushforth : As far as assistance from State capital is concerned, what do you say ?

Sir Osborne Smith : I have great objection to it and also to giving it a monopoly of Government remittance.

Mr. Manu Subedar : Even after all the assistance which the Presidency Banks and the Imperial Bank have received and are receiving, would you still say that on principle you object to State assistance ?

Sir Osborne Smith : The Imperial Bank is not getting any State assistance. If you refer to Government balances, I can show you that, in my opinion, the Bank gives a lot more than it gets.

Mr. Manu Subedar : And the remittance facilities ?

Sir Osborne Smith : That is all calculated in the service that we give for their balances. At times it is true that the Government balances reach 10, 15 or 20 crores, but they are not actually useful to the Bank as they cannot be employed.

Mr. Manu Subedar : Assuming then that the privileges are fully met by the services, you would not object if the privileges were taken away and the services were performed by Government in some other manner, the Imperial Bank conforming to the law of the land and registering itself under the Joint Stock Companies Act ?

Sir Osborne Smith : I would not object to continuing like any other bank without restrictions.

Mr. Rushforth: Regarding the penetration of big institutions upcountry, do you consider that it is feasible to have any sort of convention, regulation or understanding by which their branch activities could be controlled without interfering with healthy competition ? The position, as one sees it in reports, is that there exists at present competition which is not really for the benefit of the public. There are limits to competition, but on principle we do not want to restrict banking facilities upcountry. Do you think it is possible to have some sort of convention between the Central Bank or the Imperial Bank and other banks in regard to the opening of branches ?

Sir Osborne Smith : My idea is that to a certain extent there should be an arrangement through the Reserve Bank by which duplication might be avoided.

Mr. Rushforth : It should not be by legislation, but it should be recognized that branches are to be opened only with the consent of the Reserve Bank ?

Sir Osborne Smith : Yes, the Reserve Bank being consulted.

Mr. Rushforth : My point applies to ordinary joint stock bank business as well.

Sir Osborne Smith : I think it is feasible that branches should only be opened after consultation with the Reserve Bank in centres where duplication may be avoided and amicable arrangements come to, but not by legislation.

Mr. Rushforth : Would that be practicable ?

Sir Osborne Smith : I think so.

Mr. Buckley : Mr. Subedar raised the question of restriction of deposits. If exchange banks were not allowed to accept deposits from the Indian public, it would mean that they would have to repay something like 70 crores of rupees. I submit that in view of the fact that the amounts of deposits at the present time which are not actually used by exchange banks in advances are invested in treasury bills and Government securities, if exchange banks had to let their deposits run off, it would have a detrimental effect on the Government security market, with the result that any benefit that would be obtained by the deposits being diverted from foreign exchange banks to Indian joint stock banks would be more than off-set by the latter's large holdings in Government securities further depreciating.

Sir Osborne Smith : It will be a great embarrassment under certain conditions undoubtedly.

Mr. Buckley : Then again the only way in which exchange banks would be able to bring out funds from their own country would be by sales to the Reserve Bank ; that would push the rupee rate up to the upper gold point, because they would be all selling at the same time.

Sir Osborne Smith : Yes.

Mr. Buckley : There is one other point with regard to the six crores held in " bills". Surely the " advances " made from deposits received are all in connection with or are closely allied to foreign trade.

Sir Osborne Smith : They relate to shipment of goods.

Mr. Buckley : You either have money invested in advances against goods in course of shipment or you have it in bills on the seas.

Sir Osborne Smith : That is so.

Mr. Khaitan : But there is a difference between ' pending shipment ' and ' actual shipment '.

Sir Obsorne Smith : The one relates to goods actually on the water, and the other to goods which are in the process of manufacture or transit.

Mr. Khaitan : As regards bills in transit, is it not your experience that almost all the bills are handed over to you on the mail day ? For example, in connection with the export trade, the exporters send you the bills on Thursday.

Mr. Buckley : Or the day before.

Mr. Khaitan : So that when you say ' pending shipment ' it means a longer period than one day.

Mr. Buckley : I was referring to cash credits against goods purchased for shipment, in the course of shipment and so on. These are all closely allied to exchange business.

Mr. Khaitan : The point I want to make clear is that by ' pending shipment ' you mean the cash credit accounts of the exchange banks, *i.e.*, in connection with internal trade. Sir Osborne is not aware of the definition of ' foreign trade ' which this Committee have accepted, namely, that foreign trade starts with the issue of shipping documents and ends with the clearance of goods. On that definition would you say that the cash credits are advances from field to port ?

Sir Osborne Smith : I fear I cannot accept that definition.

Mr. Khaitan : If somebody accepted that definition, then it would be quite correct to say that it is an advance from field to port ?

Mr. Jadunath Roy : You said that if non-Indian banks received deposits in this country you would not object to it so long as they were used for the trade of this country, but would you object to a non-Indian bank which received its deposits in this country using those funds abroad for non-Indian purposes ?

Sir Osborne Smith : My view is that Indian money should, as far as possible, be utilised in this country alone.

Mr. Buckley : A statement showing the deposits received and how disposed of by the non-Indian banks in this country have already been circulated to members.

Mr. Manu Subedar : It is only a collective statement. Figures have not been given separately for each bank functioning in this country.

Chairman: Mr. Sarkar has sent me a set of questions which he has desired me to put on his behalf to Sir Osborne Smith. As the paper has not been circulated, I shall read out the questions one by one and request Sir Osborne Smith to answer them.

Q. 1. You say: "Adequate gold is hoarded in the country and Indians should have sufficient faith in their country to make such gold function by lending it to Government for Reserve Bank purposes".

On the other hand we have heard evidence that such gold hoarding is a myth. Can you give us any facts in support of your statement and indicate the form in which such hoarding is held, where it is held and the amount that may be likely to be drawn in the form of loans suggested by you? Can you give us details of your suggestions of gold loan?

In this connection, have you seen the gold certificate scheme suggested by the Currency Commission in 1926 and since elaborated in the Banking Enquiry number of the "Indian Finance"? Can you let us have your views on this scheme? Can you also let us know if the Imperial Bank, through its large number of branches, can put into effect this scheme with suitable modifications?

Sir Osborne Smith: Judging from the amounts taken almost weekly in London for India and from the Customs Returns which disclose 550 crores imports of gold since 1900 (about 20 crores a year average) and the sovereigns which have come from Australia it is reasonable to infer that much has gone into hoards, as nothing approaching such an amount could have been used for the arts, etc. Gold could be loaned to the Reserve Bank for a term of years at agreed upon interest and be repayable in the currency of the country, or in gold at the *option* of the Reserve Bank. During the currency of the loan it might be possible for the Reserve Bank to accumulate gold and repay in gold if required.

Gold Certificate Scheme.—I am doubtful of the efficiency of such a scheme. For instance, if say 25 crores were deposited and a wave of no confidence swept the country inducing complete realization of the Certificates in gold, the reserves would be in a chaotic condition. On the other hand if the national spirit became highly developed, such confidence might be created, and the investment habit become so popular that renewals of the Certificates or the nature of partial repayments might be left to the discretion of the bank. In this event a scheme on the lines of the Postal Cash Certificates would meet the case.

Q. 2. What do you think of the proposal for negotiating a gold loan with U. S. A. against our silver assets? U. S. A. wishes India to stop her silver sales. India may agree if she is given a gold loan of Rs. 20 crores (say, 65 million dollars) against our surplus rupees. Do you not agree if the negotiations bear fruit, the position of our currency reserves will be considerably strengthened?

Sir Obsorne Smith: A Gold Loan means repayment in gold and unless such a loan were for a very extended term of years and with a wide optional maturity, I fear it would be dangerous to India. In addition India can borrow more favourably in London than New York and a further disability is the established fact that after issue Dominion Loans are immediately sent to London for sale even at a loss and the effect of this policy is to transfer and make dearer further London flotations (Australian and State Loans for instance). I can see little hope for such a loan until the Reserve Bank comes into being, then it might be feasible by reason of the co-operation of Reserve

Banks and Governments. Possibly from a silver stability stand-point and also from a Trade stand-point such a loan would be advantageous to both countries. The only scheme I can visualise being successful is for producers to form a silver pool giving the United States of America the sole selling option and distributing proceeds *prorata* to all depositors ; under such terms and upon a deposit of India's quota the United States of America might possibly favourably consider a gold loan.

Q. 3. Now, with some gold by loan and with such gold as we may obtain by tapping the Indian hoards, through some scheme or other if it be possible to attain the level of the gold reserve prescribed by the Hilton Young Commission, do you agree that your essential condition of a substantial gold reserve for starting our Reserve Bank comes to be fulfilled ?

Sir Obsorne Smith : Yes. The main obstacle would be surmounted if adequate gold were subscribed but in view of the catastrophic fall in silver and its now proven instability, I would recommend a higher gold and gold securities percentage and a lower silver percentage in the reserve to start with than recommended by the Hilton Young Commission.

Q. 4. From your experience of the Central Banks of other countries, and your knowledge of the particular conditions in India, what do you consider to be the essential principles to be kept in mind in regard to the functions, and constitution of a Reserve Bank in India satisfying the " cautious sound lines and reserve requirements on a firm unshakable basis " as suggested by you ?

Sir Osborne Smith : The Reserve Bank should control currency credit and exchange and be absolutely free from political control. I favour business in ready and forward exchange and general open market operations in conformity with Government programme of requirements. An adequate percentage of time and call liabilities of member banks must be deposited with the Reserve Bank. The general lines of the 1927 Bill should be followed as the provisions represent my ideas and I emphasize it must be a Shareholders. Bank.

Q. 5. In order that the Reserve Bank proposal may materialise at an early date what are, in your view, the preliminary steps to be taken ?

Sir Osborne Smith : Formulating the necessary legislation and accumulating the Reserves and so establish the confidence of the rest of the world in India's financial position.

Q. 6. I hope you will be able to give us some valuable suggestions regarding a point which you have not dealt with in your memorandum. It has been pressed on the attention of the Committee by some witnesses that in opening branches in the up-country stations the foreign exchange banks are putting up a competition against the indigenous joint stock banks. It has been protested against by the Indian banks on the ground that it is hardly fair that the foreign banks which enjoy a practical monopoly of the exchange business should make serious encroachments even in the internal field of banking business. The point is particularly emphasised that it is impossible for the newly started Indian banks to continue for any length of time against the serious competition of the branches of formidable and resourceful Exchange banks. We have received evidence on the other hand that the competition created by the establishment of branches has proved salutory to traders and industrialists as it has tended to lower down the prevailing rates of interest. Such a view, however, may be criticised on the ground that this apparent benefit will prove detrimental to the banking development of the country in

the long run by way of putting a brake on the banking enterprise of the nationals of the country. In view of this criticism how would you think of the idea that on the basis of an agreed convention the exchange banks should henceforward cease from opening branches in up-country centres and that they should restrict their operations exclusively to the financing of exports and imports within the areas of the port towns and not engage themselves in the matter of financing inland trade.

Sir Osborne Smith : Banking is a public utility and the more sound institutions to choose from means more favourable rates of business to the community. Success then follows management efficiency. I am not in favour of any restriction except against instability.

Q. 7. The Committee have provisionally arrived at the conclusion that an Indian Exchange Bank should be established with State assistance at the initial stage and one of the proposals is that this institution must "exclusively handle the work connected with the foreign remittances of the Government" under the direction of the Reserve Bank, which will take the place of the Controller of Currency, in deciding the rate at which such remittances can be made. Do you anticipate any difficulty in giving practical effect to this scheme of giving monopoly of governmental remittance to the proposed Indian Exchange Bank ? If so, what may be the specific difficulties that you think would stand in the way and can you suggest any means by which these difficulties may be obviated ?

Sir Osborne Smith : On the ground of expense primarily, I am utterly opposed to Government putting up capital to develop a bank in opposition to established institutions which are well run and provide cheap and efficient facilities. It seems to me that such would be an expensive and superfluous luxury, aggravated by the sane conclusion that Government Exchange operations should be absolutely within the province of the Reserve Bank when established. To give such a bank a monopoly of Government business would not only penalise the tax-payer but it would also retard the Reserve Bank from exercising a proper control over credit.

Chairman. : You say it would penalise the tax-payer. Will you kindly develop the point ?

Sir Osborne Smith : I understand the proposition is that Government should put up the capital.

Chairman : When we say that the State will put up the capital it does not mean that that capital will be interest free. Whatever interest has to be paid on that capital will have to come out of the profits of the concern. Therefore, how does the question of penalising the tax-payer arise ?

Sir Osborne Smith : I should say that the country is not in a position to put up the capital for any such unnecessary enterprise.

Chairman : That is another point. The question of penalising the tax-payer does not arise. If, for example, Government borrows in the market in India or outside India and puts up capital in that way, and if the bank finds adequate interest on the capital, that is not penalising the tax-payer.

Sir Osborne Smith : It seems the general impression is that to do exchange business is the royal road to fortune. My idea is that there is considerable risk in doing it. There is nothing to say that it will be a success.

Chairman : Your point is that this bank, if established, will not be able to earn a sufficient sum of money to provide an adequate return on the capital provided by the State.

Sir Osborne Smith : It is problematical whether it would. If the exchange banks are making some profit it is because of efficient management. I am simply assuming it on the ground that otherwise they would not have continued to do the business.

Chairman : Suppose a State Exchange Bank is established with capital borrowed by Government, and Government manages to secure a first class manager. What would be the difficulty.

Sir Osborne Smith : I do not say it would not make a profit. Why have a duplication ? The Reserve Bank could perform all its functions.

Chairman : That is another question. It may be admitted of course though there may be a dispute as to whether the exchange banks are serving the needs of the country very well, that a very large share of the foreign trade of the country remains in the hands of non-Indians. That is not a desirable outlook for the country. It is learnt from books that one result of the establishment of the Yokhohama Specie Bank undoubtedly was that a greater share of the foreign trade passed into the hands of the nationals of Japan, and, therefore, it has been suggested, from the point of view of the ultimate good of the country, that we ought to foster the establishment of a State Bank. It should be clearly understood that all that the State does is to provide the whole or part of the capital. It is not a question of State management. We want the best management free from all interference by the State or by political institutions like the legislature. I do not think there is any dispute on that point however we may differ on other points.

Sir Osborne Smith : I cannot conceive how you are going to get your Board of Directors free from political control if capital is to be subscribed by the State. That seems to be one of your essentials. Further, I am not against an Indian Exchange Bank at all : far from it. What I am against is the State putting up the capital. Why should not the Indian banks subscribe the capital and create their own bank ?

Chairman : Suppose you get them to start an exchange bank. Would you object to the Reserve Bank giving that institution a monopoly of State remittances.

Sir Osborne Smith : Yes, that should be within the province of the Reserve Bank.

Chairman : How would the policy of the Reserve Bank be affected if it is laid down that the new Exchange Bank should do Government remittance business under proper safeguards.

Sir Osborne Smith : I should think it would because the Reserve Bank is apt to lose its grip over the internal and external credit of the country.

Chairman : Would you develop it ?

Sir Osborne Smith : I know you have in mind the Yokhohama Specie Bank which is not a Reserve Bank.

Chairman : You obviously know that though the Bank of Japan is supposed to be a Reserve Bank, it does not actually deal with that part of the business. How will it in any way interfere with the Reserve Bank discharging its duties properly if it is definitely decided that Government remittance should be managed only through this new Indian Exchange Bank.

Sir Osborne Smith : I cannot see any reason for the duplication or for curtailing the power of the Reserve Bank to perform its primary duty.

Chairman: I am simply trying to get information. One suggestion which has been made to us is this. Suppose Government wants in any one year to remit to London £50 millions. The Reserve Bank will know the amount to be remitted by Government - of course the amount may vary in the course of the year—but taking £50 millions as the amount the Reserve Bank makes arrangements with the new Exchange Bank for the remittance of this amount. It has even been suggested for the matter of that that the Reserve Bank will function in the same manner as the present Controller of Currency, It will simply obtain this remittance on tender, and it will give a preference to this new Exchange Bank.

Sir Osborne Smith: Why could not the Reserve Bank do all this ?

Chairman: That is a very pertinent question, I fully see that, but what are your objections to the other thing ?

Sir Osborne Smith: It is superfluous. You must realise that the Yokhohama Specie Bank was given this business before any Reserve Bank was formed in Japan at all and there is no evidence that it does the business more efficiently than the Reserve Bank would.

Chairman: I think it is not for me to question your facts because you know more about them than I do. My information is obtained from books, but to the best of my recollection both the banks were started more or less together and when it was started, the Bank of Japan was not given this business. It was given to the Yokhohama Specie Bank, the reason being, as stated in books, that exchange between Japan and western countries was liable to very large fluctuations, and Japan had at that stage very large foreign payments to make, and, therefore, this particular business was handed over to the Yokhohama Specie Bank. The Bank of Japan was not allowed to do this class of business, and the only thing it did was that it lent money to the Yokhohama Specie Bank for its working requirements at concessional rates of interest. Therefore, there was no duplication there, but it is not wholly comparable. Here the fundamental idea is that the Reserve Bank should also be made responsible for exchange, but having done so it should manage Government remittance through this contemplated bank.

Sir Osborne Smith: I must disagree with the view in regard to the starting of the bank. My information is, I am not quite sure on the point, that the Yokhohama Specie Bank was started two or three years prior to the other bank. There must be very close co-operation between these two banks—as a matter of fact the Yokhohama Specie Bank must act as an agent for the Bank of Japan in regard to exchange transactions. I do not see how they can work otherwise.

Sir Purshotamdas Thakurdas: Suppose that can be done, there is no objection ?

Sir Osborne Smith: I can see no insurmountable objection to the proposal: my opposition being on account of duplication causing unjustified expense and the restriction such a separate institution would impose on the Reserve Bank's control of credit.

Sir Purshotamdas Thakurdas: In the morning we discussed this very fully. Had I not been in the chair I would have taken part in the discussion. Sir Osborne Smith began saying that the case of Japan is a bad precedent on which to fall back. Suppose we concede that. Is it any good telling India the case of every other country is somewhat quite different and it cannot be taken as an example ? Japan started the Yokhohama Specie Bank, gave it the total exchange business, and we know where they are to-day. In India there could have been banks which should by now have established themselves strongly

and firmly. I do not think there is any need to discuss the question whether we should do anything or not to secure to the nationals of the country their due share in the financing of the foreign trade : I look upon that as an axiom, for even the foreign experts had to agree that it is desirable, and that it may be solved. What I am looking forward to is—what is the best method which you advocate ? Sir Osborne Smith says : Start an Indian bank. But at the same time, in reply to Mr. Manu Subedar this morning, he said that any Indian bank which you can start with private capital would not be able to hold its own : in fact, the words he used were that it was a competition as between a lion and a lamb.

Mr. Manu Subedar : I used this comparison.

Sir Purshotamdas Thakurdas : I may be mentioning a very simple truism, but can Sir Osborne Smith name to us any other country in this civilised world which has circumstances comparable to those existing in India to-day ? There is no country that you can name. Then, what is our solution ?

Sir Osborne Smith : As I have already said, I quite favour the establishment of an Exchange Bank here. But, as I have said already, it should not be with Government money. If exchange business is a royal road to fortune I think there must be sufficient money available for the establishment of a bank.

Sir Purshotamdas Thakurdas : If a new bank is established by private enterprise, do you really think that it can stand the competition of the 19 foreign institutions with all their accumulated capital and reserves ?

Sir Osborne Smith : If you have the confidence of the Indian public then there should be no difficulty.

Sir Purshotamdas Thakurdas : How is that confidence to be created unless the bank has worked for, say, 5, 10 15 years ? Take a most notable board : if they put up a signboard and started a bank would they carry the same weight and prestige as the foreign banks ? Certainly not. On the other hand the existing banks would try to kill this new institution, which would not be unnatural, which would only be human on their part. Therefore, India is in a peculiar position, and if she is not to be left behind and should make up the lee way which has to be made up, you have got to make a start now. Any postponement will only still more complicate the situation than it is to-day. I will now deal with the objections. First, capital. If exchange business is a non-paying business, I certainly think that there will not be this anxiety on the part of the vested interests that the State should not come in.

Sir Osborne Smith : I do not say it is a non-paying business. But it requires very efficient management. At one time—say, 20 years ago—it was a soft thing : you could not fail to make money. I think you will agree that no great fortune can be made at the present moment.

Mr. Buckley : In the days gone by exchange banks cannot deny that large profits were made. That was before and during the war, but the increased competition since has brought down the profits to such an extent that there is not the profit on the exchange business there used to be. It is a very difficult business, there are plenty of risks in it. Funds are locked up in exchange but money is only made in interest.

Sir Purshotamdas Thakurdas : If a bank is working on reasonable lines, it need not lose.

Mr. Buckley : I maintain that the present time is not the time to start a new institution. I can assure you we are having the thinnest of thin times, but when things get more normal, I see no reason why an Indian Exchange Bank promoted by private enterprise, Indian merchant

putting up the capital, should not succeed if the national sentiment is strong enough to support it whole heartedly. As for the idea that foreign banks are very strong and would crush such a new institution, I submit to you that had they wished to keep out other exchange banks they could have done so. Dutch banks, Japanese banks, the Eastern Bank, the P. and O., they all have come into the market, and make a living. If the Indian import and export merchants decide to support the new Indian Exchange Bank, it should make sufficient profit to succeed.

Sir Purshotamdas Thakurdas: You mentioned a few institutions. You know that the Japanese Bank was opened here on the strength of the protection given to exchange banks in Japan. They did not do much of non-Japanese business.

Mr. Buckley: I can tell you the reason why the Yokohama Specie Bank thrives. Most of their trade is done in such a way that all bills must be negotiated through the Yokohama Bank. This is not the case with British banks. In the case of my own bank a large percentage of bills drawn on London go through other banks because there is no stipulation in the credit that bills must go through my bank.

Sir Purshotamdas Thakurdas: You could not compete with the Japanese because they have got their needs secured at the other end. There is no question of your killing even if you wanted to. The Dutch Bank has come on because of increase of business.

Mr. Buckley: They do a specialised business in the trade between their countries and India. They do not do much general business.

Sir Purshotamdas Thakurdas: The Eastern Bank is a British Bank. How could you compete with it and kill it ?

Mr. Buckley: I am sorry I cannot explain. We own the P. and O. Bank, yet they compete with us.

Sir Purshotamdas Thakurdas: I would take it for granted that it does not make the task of the Indian any the lighter or any the pleasanter. What I say is—do you with your experience think that an Indian Exchange Bank started by private enterprise and working in an ordinary manner can establish itself ?

Mr. Buckley: I do provided you have efficient management and do not look for large dividends at the beginning and build up reserves. But it is absolutely necessary that it should get the support of the Indian mercantile community.

Sir Purshotamdas Thakurdas: Was that support available to the Tata Industrial Bank or not ?

Mr. Buckley.—I cannot discuss it. My brother was the General Manager of that Bank.

Sir Purshotamdas Thakurdas: It was a bank which had everything you named except one thing, namely, it did not get the facility which it should have got from the other exchange banks and from the Secretary of State.

Chairman: The Secretary of State should be removed under the condition we are envisaging.

Mr. Buckley: In what way did the Tata Bank not get support from other exchange banks ?

Sir Purshotamdas Thakurdas: In many ways.

Mr. Buckley : Nothing was done by the exchange banks.

Sir Purshotamdas Thakurdas : I am talking of the Seretary of State's remittances from there.

Mr. Buckley. That was a special case. I understand that the Secretary of State wrote a very nice letter explaining the position and said that they would be put on the list at the first available opportunity.

Sir Purshotamdas Thakurdas : It was some 2 or 3 years ago. My point is this. It is a case where there were all the qualifications you named.

Mr. Buckley : I submit, when it started, it did not get the support of the Indian mercantile community.

Sir Purshotamdas Thakurdas : What percentage of exchange business did they do in Calcutta in the first and second year ? They made one lakh of rupees ? After paying for the expenses that was the profit on the exchange business they did in Calcutta. We had all the support which we could expect from the Indian mercantile community.

Mr. Buckley : No, because at that time Indian firms were still doing their business with exchange banks.

Chairman : I am concerned about the relations between the Reserve Bank and the Exchange Bank. It would be useful to know if the Reserve Bank would be able to meet the situation in future if we accept the particular provision in the Reserve Bank Bill with a slight modification.

Sir Osborne Smith : I cannot see any necessity for an Indian Exchange Bank if the Reserve Bank is going to be an Indian institution. The Reserve Bank is perhaps going to be under Indian control ; then why have another one ?

Chairman : Apart from that objection, have you anything else to say on this particular point ? If there is a certain bank which acts as a subsidiary to the Reserve Bank and does Government remittances for the Reserve Bank, how would it affect the profits of the Reserve Bank ?

Sir Osborne Smith : It would merely be a department of the Reserve Bank?

Mr. Khaitan : The Chairman has just drawn your attention to a certain clause in the Reserve Bank Bill with which you are very familiar and which I shall read to you :

> " The purchase from and sale to scheduled banks and persons approved by the Board, in amounts of not less than the equivalent of one lakh of rupees, of the currencies of such gold standard countries as may be specified in this behalf by the Governor General in Council by notification in the *Gazette of India*, and of bills of exchange (including treasury bills) drawn in or on any place in any such country, and maturing within ninety days from the date of such purchase, inclusive of days of grace ; and the keeping of balances with banks in such countries."

The Chairman is apparently under the impression that under this clause the Reserve Bank would be able to enter into the day-to-day operations of exchange with the public and any member of the bank who does export or import business.

Sir Osborne Smith : I think that class of business should be avoided.

Chairman : I mention that business because you said that the Reserve Bank could do that business. There is only one clause under which they can do that business and I wanted to know what you were referring to.

Mr. Khaitan : You do not think that this enables the Reserve Bank to enter into the day-to-day operations of exchange. If the customer has, in respect of all kinds of bills, to come to the Reserve Bank, do you think it would be admissible for the Reserve Bank to do it ?

Sir Osborne Smith : I think not ; otherwise, exchange banks would go out of their business altogether. The Reserve Bank should have the power but it should be sparingly used.

Mr. Buckley : That is an emergency clause.

Mr. Khaitan : This provision is to enable the Reserve Bank to have control over exchange operations when they deem fit.

Sir Osborne Smith : Yes.

Mr. Khaitan : Secondly, I would draw your attention to the fact that there is a minimum limit of one lakh of rupees. Now the bills in the jute trade are in respect of 250 bales, and 250 bales at the present rate means Rs. 7,500. Under this clause there must be at least 13 bills with one merchant on one day before he can go to the Reserve Bank and sell the bills.

Sir Osborne Smith : These should go to the exchange bank.

Mr. Khaitan : Again the clause says that the bills will be in the currency of such gold standard countries as may be specified in this behalf by the Governor General in Council. The Governor General may specify only England under this clause. I do not mean to say that he will do so, but he has the liberty to do it.

Sir Osborne Smith : That means countries with stable currencies.

Mr. Khaitan : What do you think of Australia at the present moment ?

Sir Osborne Smith : Not much.

Mr. Khaitan : Therefore, in respect of trade done with Australia, this provision will not enable merchants to go to the Reserve Bank for their exchange operations.

Sir Osborne Smith : I think I mentioned gold exchange countries.

Mr. Khaitan : You will remember that the exchange of Japan was not stable.

Sir Osborne Smith : I was under the impression that such countries come under official management.

Mr. Khaitan : I want again to draw your attention to the words "and maturing within ninety days from the date of such purchase". Supposing I draw a ninety days' bill to-day, it will not mature until 108 days are over. Eighteen days are taken in transit, then it has to be presented and accepted.

Sir Osborne Smith : It is still classed as a ninety days' bill.

Chairman : Therefore, we come back to the proposition with which we started. You said that in future the Reserve Bank itself would be able to solve the position and that there was no need to duplicate the banks. You now admit that proposition is not wholly correct ?

Sir Osborne Smith : There are other banks that could do the business.

Chairman : There may be other banks, but the difficulties in the way of other banks continuing to do the business for all time to come has already been put before you by the Vice-Chairman.

Sir Osborne Smith : What I meant was that the Reserve Bank should do all Government exchange business, not all the exchange business in the country.

Chairman : In fact I began by asking you what the objections were to the Reserve Bank doing all Government business through a subsidiary bank, namely the contemplated new Exchange Bank. I shall not call it a State Exchange Bank, because apparently you are very strong on the proposition that it must not have any capital from the State. So we shall call it an Indian Exchange Bank.

Sir Osborne Smith : It would merely be a department of the Reserve Bank. Is not that your idea ?

Chairman : Those ideas of ours are not developed. Some have said that the Reserve Bank will sell weekly Government remittances only to this bank and then this bank will thereafter operate in the same way as an ordinary exchange bank. There may be objections to it, I do not know. The other thing may be that in respect of Government remittances this bank would be in closer touch with the Reserve Bank. If this bank does not come into existence, then the Reserve Bank would settle Government remittances through the existing exchange banks. Would not that be the case ?

Sir Osborne Smith : Yes.

Chairman : It would go on buying exchange from day-to-day and thereby it would extend its portfolio, from which it would be able to meet Government remittances. Suppose instead of doing that, that part of the work was done by a subsidiary, *i.e.*, the new Exchange bank. The work would be done really in a portion of the new Indian Exchange Bank which would be a department of the Reserve Bank. Would you see any objection to that being done ? There may be objections to the Reserve Bank absolutely selling all Government remittances to one particular institution and so to say, giving it a monopoly. The foreign experts have drawn attention to certain difficulties, I do not want to keep back anything from you. It may happen that if this monopoly were given and the operations went on independent of the Reserve Bank, then the freedom of the Reserve Bank will disappear. The Reserve Bank when it operates in regard to Government remittances, as I understand the position, need not disclose its operations. That was brought out in Governor Norman's evidence before the Hilton-Young Commission. It may go on doing that and increasing its portfolio of foreign exchange bills and out of that it may meet the requirements of Government. If instead of doing that it were to sell all Government remittances to the new Exchange Bank from week to week, it is possible that there might be some inconvenience. I do not know if you apprehend any such inconvenience.

Sir Osborne Smith : I do not think so.

Chairman : So far as I am concerned, this clears up the position, *i.e.*, you see no insuperable difficulty in the Reserve Bank operating in this manner in regard to Government remittances, *viz.*, its selling every week something to the new Exchange Bank and to the new Exchange Bank alone. Thereafter the new Exchange bank passes it on to the market. You do not think that it is likely in any way to hamper the proper operations of the Reserve Bank in regard to one of its cardinal functions, namely the maintenance of exchange and the meeting of Government remittances.

Sir Osborne Smith : I see no objection other than expense to its operating closely with the Reserve Bank. I should say that the Reserve Bank will have to control its operation.

Chairman : Then we come to the other thing, *i.e.*, instead of selling weekly a certain sum of money to this new bank, the new bank or the department will be an agency of the Reserve Bank in this respect, and the Reserve Bank will purchase all its exchange through that bank. At least that is how it struck me. The two things are slightly different. In the one case, the Reserve Bank every week sells, say 3 millions on behalf of Government, the new bank takes over those three millions and disposes of the three millions in the market. That is the monopoly of the new bank. We have been told that this may interfere with the proper operations of the Reserve Bank which must not be disclosed from week to week. The Reserve Bank should go on buying exchange for Government from week to week or month to month without disclosing that position to the outside market. If it were to make a regular arrangement of selling the three million to the new bank, the difficulty mentioned about disclosure would arise. But it might be met by arranging, as you yourself said, that in regard to Government remittances, this new bank would operate as a department of the Reserve Bank. To that extent its operations would be actually controlled by the Reserve Bank. The Reserve Bank when it is purchasing exchange would simply say : " This week you go and buy so much, and we will be responsible for the purchase ". Do you see any objection to the contemplated arrangement ?

Sir Osborne Smith : I cannot see any objection, but I cannot see any advantage except that the subsidiary bank can do some business for the Reserve Bank which it could just as readily do itself.

Chairman : That is the intention. If it does some subsidiary business, some of my colleagues think that it would be to the best interests of the country. I am simply trying to clarify in my own mind what would be the best arrangement for the sound working of the Reserve Bank. As it is, according to the first arrangement there may be duplication, *i.e.*, the Reserve Bank every week sells exchange to this particular bank, the latter takes it over and passes it on to the market. (I am referring to Government remittances). On the other hand, if that bank were not in existence, there would be a separate department to do that particular class of work. Suppose we arrange this particular department to be under the new bank ; even the duplication part will disappear and my question is whether according to either of the arrangements there would be an interference with the operations of the Reserve Bank. We admit that it should be one of the cardinal functions of the Reserve Bank to maintain Exchange and meet Government remittances. I am not wedded to any idea ; with your kind assistance, I am trying to understand the position and one of the arguments used by the foreign experts was : " If the Reserve Bank week after week bought exchange then its operations would come to be well known and if it made the practice of buying something every week through a particular bank, it may not be able to operate in the market with that secrecy which may be essential for the purposes of the Reserve Bank." Cannot that part of the objection be met by the particular department of this new bank which deals with Government remittances working as a branch of the Reserve Bank or a department of the Reserve Bank ?

Sir Osborne Smith : At the same time I cannot see why the Reserve Bank should not do it itself.

Report of discussions with Representatives of the Railway Board.

Monday, the 30th March 1931.

Chairman: Mr. Hannay, in the various Provincial Banking Enquiry Committees' Reports proposals have been made that railways should maintain warehouses, and proposals have also been made that railway receipts should be made negotiable documents to enable banks to make advances. I should like to ask you a few questions in regard to these matters. In the case of independent warehouses organised by private enterprise we have decided that there should be a licensing authority in each province consisting of a Committee of one Government officer and representatives of local business interests (including agriculture especially for up-country areas). If Railways agree to help in the matter of godowns and warehouses, the relations between the Committee and the Railway administrations will have to be considered. Is it possible for the Railways to do anything in the matter?

Mr. Hannay: I should say it is a very difficult problem. We will have to improve the existing accommodation and increase the staff and so on to protect the goods from theft, etc.

Chairman: Why should it be a difficult business.

Mr. Hannay: Because, ordinarily our accommodation at most of the stations is inadequate now. There are certain places where there is a certain amount of spare room, such as in places like Howrah and Lucknow, but generally the provision of extra suitable accommodation will entail the acquisition of more land or the building of upper stories to existing godowns and goods-sheds with the provision of electric hoists, etc.

Chairman: Your point is that it would entail a certain sum of money by way of additional expenditure on the acquisition of more land, constructions of buildings, etc.

Mr. Hannay: Yes, to a considerable extent.

Chairman: That is the only difficulty?

Mr. Hannay: It is a little difficult for me to say. We shall have to examine the question in greater detail. I take it that we would have to issue warehouse receipts of portions of larger consignments received by us, which would be possibly split up. This would mean increase in the staff, required for keeping the books and so on. Probably the buyers and sellers will also require samples to be taken out for purposes of transacting sales. I might say that this is now done at Calcutta to a limited extent.

Chairman: Have you got a warehouse in Calcutta now?

Mr. Hannay: We have only got our goods-sheds in Howrah and within the period of 48 hours, that the goods may be there, the merchants come in and take samples of the consignments which are sold before we make delivery of the goods. Sometimes the railway receipts change hands 3 or 4 times even it is only for a short period of 48 hours at the most that the goods are kept in the goods-shed after arrival at the destination. I have heard that in the Calcutta Port Commissioner's tea warehouse when tea arrives, samples are taken and tea auctioned and then despatched to the buyers.

Chairman: Part of our scheme is that there should be trained and certified graders at all these warehouses. Would that not cover your difficulty? Once this grading is made it will be known what sort of stuff the consignment contains and so on.

Mr. Hannay: I expect there will still be difficulties in the way.

Chairman: Further you will have to arrange for the insurance.

Mr. Hannay: That is a point which we thought of too, but who will take the risk? Do you mean to say that our charges should cover that risk as well?

Chairman: I think that is the intention.

Mr. Hannay: Will not the Provincial Governments pay that?

Sir Purshotamdas Thakurdas: The man who uses the warehouse will have to pay for it ultimately.

Mr. Hannay: Then there is the point whether the Railways will be entitled to do it under the Railway Act. That will need examination.

Chairman: Do you mean to say that the Railway Act will stand in the way?

Mr. Hannay: We have not considered the point.

Chairman: That difficulty is not after all insuperable. The Act could be amended if necessary if it is found to be in the larger interests of the country.

Mr. Hannay: That is so.

Chairman: The other point is that Railways will have to store goods which are not booked from one station to another. At the present moment you receive goods in the shed only when they are to be sent from one station to another.

Mr. Hannay: Yes, we at present only receive goods for despatch from one station to another station.

Chairman: Then again there is the question of the risk from wastage while in the godowns.

Mr. Hannay: That is so.

Chairman: And your charges cover that also?

Mr. Hannay: At present such consignments are covered by the terms in the risk note. We do not accept risk on all consignments. I do not know whether you want us to bear wastage risks as well?

Chairman: I should think so. Otherwise I do not see how you can work out the scheme.

Mr. Hannay: Not unless risk notes are issued to cover such wastage.

Mr. Khaitan: As the Chairman has told you this point has been brought to our notice by several of the Provincial Banking Enquiry Committees and it is thought that the development of warehousing business would be convenient not only for the purpose of carrying on internal trade more efficiently and economically but also to afford better banking facilities by making the warehouse receipts so granted negotiable instruments to enable banks to advance moneys on them. To begin with the scheme

could be tried at certain specified places and if the same is found successful the scheme could be extended to other places as well. The whole idea is that instead of waiting for a maximum period of 48 hours goods and merchandise could be kept there indefinitely under the control of the Railway administration or otherwise for which a receipt is issued by the warehouse which is made a negotiable instrument. Do you think there is anything intrinsically wrong or undesirable in that procedure?

Mr. Hannay: It is difficult to say without having had time to examine the question thoroughly. Railways would naturally be very willing to do everything possible to encourage trade and industry but it is impossible for me to say as yet whether and to what extent we could do it.

Mr. Khaitan: Those would be matters for discussion after which rules could be framed regarding the working of these warehouses.

Mr. Hannay: So far as the question of transferring goods from the existing goods-sheds into the proposed warehouses is concerned, I do not anticipate any difficulty.

Mr. Khaitan: There will not be any difficulty. Warehouses could be arranged to be constructed along the railway line itself so that goods could be unloaded and the work of your present goods-shed could thereby be considerably reduced.

Mr. Hannay: There may be local difficulties as well, want of proper accommodation and so on.

Mr. Khaitan: We are now only discussing the question of principle and all that we suggest is that experiments should be tried at selected centres. Therefore the whole point is whether there is anything intrinsically wrong or undesirable in this Committee making a recommendation in their Report asking for co-operation of the Railway administration for the purpose of extending facilities as regards warehousing. I believe the railway administration in America do it to the great advantage of the country at large and after studying the conditions prevailing in America and this country some rules could be framed so as to meet the requirements of the Railway administration and the public in the matter of providing warehousing accommodation and other consequential facilities for trade and industry in this country.

Mr. Hannay: I quite agree that the railways should co-operate in this matter and I am sure they will do their best, but I would not like to commit the railway administrations in any way. Over and above this, there is the question of finance and we do not know when we will get the money.

Mr. Khaitan: We need not worry ourselves about the question of finance at present. Here we talk only of the principle for the present and for trial of the scheme at certain places.

Mr. Hannay: The Bihar and Orissa Banking Committee in their report have said that this scheme is very easy and the railways should be able to do it without much difficulty. We do not understand the position to be as easy as this.

Mr. Khaitan: That Committee have not viewed the subject from the point of view of finance. The whole point is that the scheme is not impracticable to work up. Of course, I do not deny that the railway administration should spend money in maintaining their warehouses on up-to-date lines, after having constructed them. Later the question might

also arise whether these warehouses should be run by the railways themselves or leased out to private contractors and so on. These are matters of detail. Therefore, excepting the question of finance you do not see any insuperable difficulty in this scheme. Is that not so?

Mr. Hannay: It would be a very big organisation and it would not be a cheap organisation. As I understand it now, the idea seems to be that the warehouses would be absolutely a separate organisation from the railway administrations, which would mean the maintenance of a separate staff for the administration of each warehouse. This will be all the more so in big centres where there is a good deal of export and import business.

Mr. Khaitan: Most of the business will pertain to the internal trade of the country. Take the case of wheat for instance. Wheat that comes into Calcutta from inland centres are mostly those which are sold to the flour mills in the City.

Mr. Hannay: But there would also be goods (imports and exports) for export across the sea.

Mr. Khaitan: You know there is the Port Trust Warehouse in Calcutta near the docks which deals with such imports and exports as pass through the sea. So that the Railway administration will not have much to do with goods which are exported out of India.

Mr. Hannay: I agree that in Port towns like Calcutta, Bombay and Karachi it will be so, but there are interior centres also to be reckoned with.

Mr. Khaitan: I am now thinking of the demands put forward by the Indian Produce Association of Calcutta who fought with the East Indian Railway authorities for several years in the matter of getting warehousing facilities until they gave it up.

Mr. Hannay: If I may be excused for saying so, what they really wanted was a place for a market.

Mr. Khaitan: That is just the intention of the warehousing scheme, where goods could be stored, where deliveries could be effected and the receipts granted by the warehouse Manager treated as a negotiable instrument. So then the idea is not entirely different. I have only mentioned this in order to show how great is the need felt by the merchants for facilities of this nature. Even now the Indian Produce Association approached me in regard to this matter asking me to move the railway authorities once again, but I told them that the matter was being looked into by the Central Banking Committee. The need is very greatly felt and we want the railway administrations to help in regard to this matter.

Mr. Hannay: Yes, we agree with you that the Railways should do all in their power to help the trade of the country in all possible ways. One other point is that we as a Railway Board can only give administrative orders to State-managed railways. The Company-managed railways have their own charters and they are very jealous of any interference with them.

Sir Purshotamdas Thakurdas: That difficulty of the Railway Board is realised and cannot be overlooked. I presume you have seen our Secretary's letter to Mr. Parsons dated the 24th March in which is quoted the

relevant portion of the report from the Bihar and Orissa Committee's report. I should like to read to you the following:—

> "It is clear that warehousing facilities are not required in the villages at the first stage of marketing exports and the last stage of marketing imports. The quantities involved are too small. They are, however, required at all the other stages. We think in the first marketing stage of import and the last stage of export the railway is the *cheapest* and most suitable agency for warehousing. In the nature of things it has to store all kinds of goods in transit for some time. It has had long experience of this business, and it would not find it difficult to expand it by extending existing godowns where necessary. It would inspire the necessary confidence in banks, and its large scale operations and security would enable it to levy the lowest possible charges and dispense with the heavy expense of insurance."

Do you agree with the above?

Mr. Hannay: Not entirely.

Sir Purshotamdas Thakurdas: Which is the portion you do not agree with?

Mr. Hannay: In the first place I do not agree that it would be a small matter to extend the warehousing business.

Sir Purshotamdas Thakurdas: The Railway Board is meant to handle big matters. We would not pass on to you anything but the biggest of things.

Mr. Hannay: That may be, but you are proposing to pass on something which is quite outside our sphere.

Sir Purshotamdas Thakurdas: Is it? I am told that is what is done by every railway in every other country.

Mr. Hannay: But I am talking of ourselves.

Sir Purshotamdas Thakurdas: You have to become up-to-date in this matter sooner or later. The two points on which we want your opinion are whether you can do it cheapest, and whether you would not find it difficult to expand it by extending existing godowns where necessary.

Mr. Hannay: It could be done very likely, but as I have said it is going to be a costly matter; in certain cases even the acquisition of land might be prohibitive.

Sir Purshotamdas Thakurdas: All that paraphernalia will have to be provided. Do you agree with the sentence: "We think in the first marketing stage of import and the last stage of export the railway is the cheapest and most suitable agency for warehousing?" Please do not think of Calcutta, Bombay, Madras and Karachi ports where there are the Port Trust and other godowns. Think of the other inland centres where the agriculturists' produce has to be provided with some storage accommodation and where the imports into the country have to be provided with some sort of storage. I want your opinion whether you agree with the Bihar and Orissa Committee that the railway would be the cheapest and most suitable agency for warehousing at these stations. If you do not, I shall feel obliged if you can say why you do not.

Mr. Hannay: We could possibly do it cheaper than any other agency.

Sir Purshotamdas Thakurdas: That makes you the cheapest.

Mr. Manu Subedar: You claim in the present state of affairs that you can do it cheaper than any other agency?

Mr. Hannay: It is very difficult to make a statement straightaway.

Mr. Manu Subedar: Generally speaking?

Mr. Hannay: I think probably we should be able to do it cheaper, but I cannot definitely say. It needs investigation.

Sir Purshotamdas Thakurdas: Would not the railway be the most suitable agency for warehousing at these stations?

Mr. D'Souza: We cannot say without investigation.

Sir Purshotamdas Thakurdas: You have had experience of a number of years.

Mr. D'Souza: When they speak of the cheapest agency, naturally they are assuming that there are other agencies and comparing the cost of working those agencies with the railway they say the railway would be the cheapest.

Sir Purshotamdas Thakurdas: Are you aware of any other agency?

Mr. D'Souza: I have often heard of co-operative societies.

Sir Purshotamdas Thakurdas: Mr. Ramdas Pantulu will tell you that co-operative societies have very little storage facilities at the present moment.

Mr. D'Souza: Railways only provide for storage accommodation for 24 hours, or at the most for 48 hours.

Sir Purshotamdas Thakurdas: Therefore it is an extension of your existing facilities.

Mr. D'Souza: Our experience is only confined to 48 hours' storage at the most.

Sir Purshotamdas Thakurdas: But storage experience whether it is confined to 48 hours or 48 weeks, is the same.

Mr. D'Souza: There is a tremendous difference. We have not now to take all the precautions which we would have to take if the period of storage were to be extended to an indefinite period which would be the case in respect of warehouses. Our ordinary storage accommodation at stations are more or less open sheds.

Sir Purshotamdas Thakurdas: It is a matter of covered sheds.

Mr. D'Souza: Covered and locked.

Sir Purshotamdas Thakurdas: Your existing sheds are locked?

Mr. D'Souza: Only to a very small extent, and then too they are utilised for keeping valuable goods, *e.g.*, piece-goods, provisions in cases, etc.

Sir Purshotamdas Thakurdas: Does it make any difference in the experience?

Mr. D'Souza: It does when your experience is confined to small matters and you are suddenly asked to launch on something on an extensive scale, the full implications of which are not yet understood.

Sir Purshotamdas Thakurdas: You will only be expected to store the requirements of the particular station. If you take any station, all the

imports to and exports from, that station is the maximum which you can get to store. Therefore you are not being asked to do something outside the proportion which the railway has to handle now. The only difference is whereas you have stored for 48 hours without penalty, now you may have them for 4 weeks. I do not see why you magnify the problem into such an elaborate problem.

Mr. D'Souza: I shall explain to you where we anticipate difficulties. Taking first the inward consignment, when a consignment is received at station, it is entered up in our books and there it stands as a consignment waiting at the station for delivery. Normally it is delivered the same day or at the latest on the following day. That is our actual practice, and till it is delivered and freight is paid, we feel we are responsible for it. With a warehousing arrangement, the delivery must still take place; the man must release his consignment by the payment of freight.

Sir Purshotamdas Thakurdas: You mean as far as your Transport Department is concerned?

Mr. D'Souza: Quite so, immediately that transaction is over, a new transaction starts and it is that new transaction of which we have no experience. Therefore, we cannot say at this stage that the railway would be the cheapest agency.

Sir Purshotamdas Thakurdas: Technically you are correct, but practically would it form all that difference which you mention?

Mr. D'Souza: I should not have mentioned this, had it not been for the practical difficulties.

Sir Purshotamdas Thakurdas: I want to understand your experience.

Mr. D'Souza: I feel the difficulties would be there. Whereas in the one case it would be a simple transaction of delivery on the same day or at the latest on the following day, it is an entirely different story when we come to deal with consignments that are stored elsewhere. It would have to be a separate department of the railway if it is to be done on a scale commensurate with the advantages one looks forward to.

Mr. Khaitan: From that point of view the problem would become simpler. At the present moment goods may be left on your hands after the due date and you have got to have a watch and ward staff to look after them, but after the establishment of the warehouse, you will keep them locked up.

Mr. D'Souza: Those cases you anticipate of consignments being held up are infinitesimally so small in comparison with the total number received at the station that we never think of them. You might say that in a whole month we may have six consignments to look after.

Mr. Khaitan: But it becomes difficult for us to understand how the establishment of a warehouse would make that portion of your work more difficult; if at all, it would make it easier.

Mr. D'Souza: I was for the moment considering only the two points which Sir Purshotamdas definitely asked us to consider, firstly that the railway will be the cheapest agency for warehousing. Unless we have something else to compare, we cannot say how we will be the cheapest.

Mr. Khaitan: May I explain to you why the railway becomes the cheapest? At the present moment there are two operations: one is the carriage

of goods from the railway to the consignee's godown and from the consignee's godown to the buyer's godown. In the other case, it will only be one operation, *i.e.*, from the railway warehouse direct to the buyer's godown, or the buyer himself may have some arrangement with the railway, so that it is kept in that very warehouse on account of another buyer. So the number of movements of the goods would be saved and there will be a consequent saving on account of the expenses connected with the movements.

Mr. D'Souza: That presupposes that the cartage from the railway goods-shed to the railway warehouse is going to be very small. We cannot start off with that assumption, knowing our accommodation at the stations. Under the present arrangement the goods are taken direct from the goods-shed to the merchant's cart as far as the railway is concerned, and as far as the trader is concerned it goes from the cart to the godown.

Mr. Khaitan: I do not think I made myself clear. At present the merchant carries it from the railway to his warehouse which is not licensed, and any person who buys the goods has got to take delivery of the goods into his own godown. If another merchant buys, the same goods have to be transported again. If the railway warehouse becomes a licensed warehouse, all the cartage expenses are saved. Suppose I buy from Sir Purshotamdas 20 tons of wheat, all that he does is to endorse to me the railway receipt. I sell that to Mr. Masani, the goods are not moved at all, they remain all the time in the warehouse and all the cartage charges are saved.

Mr. D'Souza: That is the general principle which Mr. Hannay accepted. How does it become cheaper?

Mr. Hannay: It is undoubtedly cheaper to the merchant, but that is not the point. So far as warehousing is concerned, we could probably do it cheaper than any other agency.

Mr. Khaitan: What is cheaper to the merchant is really cheaper as indicated here.

Mr. D'Souza: I do not look at it from that point of view. The point is, who could provide the accommodation cheaper.

Sir Purshotamdas Thakurdas: Here the cheapness refers to the expenses of cost to the merchant. If I want to get a certain quantity stored and if you charge me Rs. 20 whereas I have to pay Rs. 25 or 30 anywhere else you are the cheapest.

Mr. D'Souza: It is a very different proposition.

Sir Purshotamdas Thakurdas: That is how we understand in the commercial world. In the Railway Board you may understand it in some other way. Please look at the last paragraph of the letter to Mr. Parsons:

> "It has been brought to the notice of the Committee that the Faridkot State have built some warehouses alongside the railway near Ferozepore and that these are working satisfactorily. If your Department can obtain any information in regard to the working of these warehouses, the Committee will be grateful."

Can you enlighten us regarding this?

Mr. Hannay: With your permission I shall read to you a D. O. letter from the Divisional Commercial Officer at Lahore which gives the information:—

> "Reference your conversation on 'phone to-day. I have enquired from Lachman Das, Station Master, Faridkote, who has been there as Station Master for the last five years and he informs me that during these five years the grain elevator at the station and the granaries have never been worked even for a day. He also tells me that, as far as he knows, the elevator and the granaries have not been made use of even for a day ever since they were constructed. I asked him what was the source of his information and he tells me that he has several times asked the State authorities and they have given him this information."

Sir Purshotamdas Thakurdas: You have demurrage charges in vogue at present which are something in the nature of a penalty.

Mr. Hannay: If I may explain, demurrage refers to wagons and it is a heavier charge, because naturally wagons are valuable to us and we want to keep them moving. We charge wharfage on goods on wharves and in godowns. That is at a less rate; the whole object is to get the goods cleared quickly.

Sir Purshotamdas Thakurdas: Therefore, it is in the shape of some penalty.

Mr. D'Souza: Yes.

Sir Purshotamdas Thakurdas: Do you think that your godown charges can be lower than the wharfage charges, generally speaking?

Mr. D'Souza: Broadly speaking, the wharfage charges to-day are three pies per maund per day. Comparing it with storage charges in private godowns, they do not seem to be very much higher.

Mr. Manu Subedar: But it is an increasing scale?

Mr. D'Souza: No, it is a flat charge generally.

Sir Purshotamdas Thakurdas: I am not aware of circumstances all over India, but three pies per maund per day seems to me to be very high for at least certain stations. Do you think you could work out a sort of *pro forma* charge for an average way-side station having an average incoming and outgoing cargo, and let us know approximately what your charge would have to be?

Mr. D'Souza: That we could tell if we have a fairly approximate idea of what the Committee have in mind as regards the extent to which at an average station goods are likely to be in the warehouse.

Sir Purshotamdas Thakurdas: I do not know what the Committee would have in view, but I can tell you my idea. If at any station, say, you have 5,000 tons going out and 3,000 tons coming in in a year and if you base the calculation at that station for the godown to contain 1,000 tons at the maximum, it would be liberal accommodation. I am giving you very rough ideas, but you can take one-tenth of the total.

Mr. Khaitan: It should be made clear that in calculating the charge you take the proper rate of interest on the capital. You should not try to make a large amount of profit out of it.

Mr. D'Souza: We would certainly give the details of how we arrived at our figures.

Sir Purshotamdas Thakurdas: I would suggest that you leave out insurance. Otherwise it would be difficult to know how much you include. What generally happens is that the merchant who understands business will generally provide you with a cover out of his own policy.

Mr. Khaitan: It would be very much cheaper if the railway takes out a floating policy on the full godown rather than separate merchants taking out separate policies. The railway can always apportion the cost among the different people who want accommodation.

Sir Purshotamdas Thakurdas: I do not want to mention this at this stage, because Mr. Hannay may take more time in finding out if it cost the merchant 1/32nd. For the purpose of this Committee, you can leave insurance out and say that the insurance charges are to be incurred by the man who stores his goods.

Mr. D'Souza: Can the Committee give us some indication of what stations they have in mind?

Sir Purshotamdas Thakurdas: I suggest that you would personally be able to select the stations better. Say one station where there is traffic in cotton, one where there is traffic in jute and one where there is grain traffic.

Chairman: Say, one in Berar, one in Gujarat and one in Lyallpur.

Mr. Hannay: It is of course understood that in most cases the traffic is seasonal and we would have to provide for accommodation which should be lying empty for many months in the year.

Sir Purshotamdas Thakurdas: It would look so, but I am sure that once you provide accommodation, people in Berar, instead of holding to their accommodation in Bombay at the Sewri depot where the charges are not on the low side, would prefer to retain their accommodation at their own stations. Within three years you will find that your godowns are the most active part of your business. You can base your calculation on the assumption that the godowns would be full for six months in the year: I have no doubt personally that the men who handled the goods would prefer to use your warehouses, because your charges will in any case not be higher than the charge at Bombay, Karachi, etc. Perhaps after you have examined the question we can go into the matter in detail.

Mr. Manu Subedar: You have never thought of storage business as part of your business. It comes in incidentally as part of your business as carriers?

Mr. D'Souza: For a very limited period.

Mr. Manu Subedar: It is for that reason that you do not wish to encourage storage. As a matter of fact, hitherto you have not encouraged storage, but discouraged it.

Mr. Hannay: That is true.

Mr. Manu Subedar: You have no separate capital account for your wharfage accommodation?

Mr. Hannay: No.

Mr. Manu Subedar: And the charge of three pies is a uniform charge on all classes of goods?

Mr. D'Souza: Not entirely. On the East Indian the rate is a pie, on the G. I. P., it is two pies and on one railway it is 4 pies. But speaking broadly, three pies represents the rate on Indian railways generally.

Mr. Manu Subedar: There are certain commodities which can bear this and which would therefore be inclined to accept if you do not keep an increasing scale. Have you any time limit for keeping goods?

Mr. Hannay: We keep them free for 48 hours.

Mr. Manu Subedar: Suppose a man wants to keep his goods for a month. You must have some administrative limits. You must give him notice and get rid of the goods if he does not clear the goods within a given time.

Mr. D'Souza: In the case of perishable goods, we say that if they are not removed within 24 hours, there is the danger of their rotting, and we sell them by auction.

Mr. Manu Subedar: What about the other goods which are not so immediately perishable?

Mr. D'Souza: We give the man about 15 days' notice within which he must clear and if he does not, we are entitled to auction them.

Mr. Manu Subedar: So that with regard to your storage business, the trend of your business has been more or less to discourage the storage of goods?

Mr. D'Souza: We have not got the accommodation.

Mr. Hannay: There is no demand and we have not provided accommodation. Our rules are such as to hasten the delivery of the goods in order to make room for others coming.

Mr. Manu Subedar: Therefore the rate of three pies has been fixed more or less on the basis that it will not encourage people to leave the goods in the godown.

Mr. D'Souza: Quite so. Our experience has been that at times of pressure, to avoid delay in the delivery of consignments, we have had to cut down the free period from 48 to 24, and even to 12, hours for want of accommodation. Wagons would be held up unless they could be unloaded promptly, and this cannot be done unless consignments already in the shed are removed.

Mr. Manu Subedar: Therefore the suggestion was made that you should expand your warehousing business. Do you expect that the establishment of warehouses as suggested by the Bihar and Orissa Committee would increase your traffic.

Mr. Hannay: We take it that your Committee are recommending it for this reason.

Mr. Manu Subedar: I do not know that the Committee have recommended anything yet. We are still in the consideration stage. Personally I do not know how it can increase your traffic. At present you have no views as to whether it will increase the traffic?

Mr. Hannay: We have not.

Mr. D'Souza: I think we can say definitely that it will not create traffic which does not already exist.

Mr. Manu Subedar: Would you earn more freight if warehouses were established?

Mr. Hannay: I do not know, facilities for the movement of trade might increase traffic.

Mr. Manu Subedar: I was trying to get at the motive of the railways to spend more money in creating these warehouse facilities. One of the motives would be not only to recover money on that part of the work, but also a little more on your general operations.

Mr. Hannay: I should not like to say that without examining the question.

Mr. Manu Subedar: You also said that you would do what you could when you had the money. You do not know when more money would be available?

Mr. Hannay: I do not think I said that we would definitely do it if we had the money. I pointed out that the want of money at the moment was a definite handicap.

Mr. Manu Subedar: What I want to point out is, even if you had the money, would it pay you to do it?

Mr. Hannay: It is difficult to say without examination.

Mr. Manu Subedar: Mr. D'Souza referred to the question of the period during which the goods would be stored, not merely on behalf of the consignee, but the buyer also might want to leave the goods until he found his customer who is also an intermediary. You would have some difficulty therefore in estimating the actual storage accommodation to be provided at each place if the process of storage was extended right up to the final purchaser removing the goods.

Mr. Hannay: Yes.

Mr. Manu Subedar: You would have more bills to be made out in that case, more accounts and more audit work; and if for want of room at some place near the goods-shed you had to remove the warehouse to a distant place, the administrative charges will have to be increased.

Mr. Hannay: Yes.

Mr. D'Souza: It will have to be a separate department to make it pay.

Mr. Manu Subedar: You would therefore not be in a position to say anything until you have made calculations as suggested by the Vice-Chairman in regard to the particular place, the accommodation required, the capital outlay, the period during which the warehouses are used, the administrative staff, the audit staff and so on.

Mr. Hannay: That is so.

Dr. Hyder: You were asked several questions about the costs of handling the goods, *plus* storage charges, *plus* insurance charges. Do you agree that if an organisation as suggested is created the ultimate costs would go down considerably?

Mr. Hannay: Yes, to the merchant.

Dr. Hyder: Therefore the merchant would be able to pay you more by way of charges?

Mr. Hannay: Yes.

Dr. Hyder: You said that you have got to pay very high prices for land at some of the more important stations for the creation of the warehouses.

Now I wish to ask you whether it has occurred to you, as a member of the Central Railway Board, how people in other countries, where the cost of land is more, have solved this problem?

Mr. Hannay: No.

Dr. Hyder: The point is that they do not plan these warehouses at congested centres. I have seen that the Railway warehouse at Marseilles is about 3 or 4 miles away from the railway station, far from the congested areas and there is ample accommodation for the storage of goods there and the whole scheme is working very satisfactorily. Coming to the point under discussion, I suggest you can also do likewise. Can't you?

Mr. Hannay: That is a possibility.

Dr. Hyder: Now as regards insurance, if you undertook the insurance with a reputable Insurance Company and pay a lump sum monthly or annually instead of effecting insurance in detail you would be able to effect very good economy. Is that not so?

Mr. Hannay: I am no expert or insurance. Mr. Khaitan has said that it would be a cheaper method of insurance.

Dr. Hyder: Then with regard to the question of theft, etc., is that a big point? Have you not at present a system of watch and ward to look after the goods-sheds in the stations. Is not that system working efficiently?

Mr. Hannay: There has been a great improvement in recent years.

Dr. Hyder: The space in the goods-sheds is always occupied even at present when the goods remain there not more than 48 hours and a chowkidar or somebody is always there to look after the same. That being so do you not take the risk at present?

Mr. Hannay: Much depends on circumstances and on the fact whether goods are covered by risk notes.

Dr. Hyder: All the same somebody looks after them and they are under lock and key?

Mr. Hannay: That is so.

Dr. Hyder: Bulky things like coal and timber, you could not keep in your warehouse?

Mr. Hannay: No. Such traffic is dealt with at depots near sidings which are leased out by us to the merchants.

Dr. Hyder: Therefore practically speaking you will have to confine your warehouse activities to agricultural and commercial produce?

Mr. D'Souza: Yes, we can deal with anything which is well packed, like bags, boxes or bundles.

Dr. Hyder: Does it occur to you that by incurring some expenditure on the extension and improvement of existing goods-sheds there is room for changing them into good warehouses?

Mr. Hannay: The existing goods-sheds have not enough space available for making them pucca warehouses, normally speaking.

Chairman: Is it not possible for you to provide larger storage accommodation within that area?

Mr. Hannay: Possibly by providing two or three storied buildings in some big centres, as we have now in certain places.

Mr. Manu Subedar: Mr. D'Souza, may I ask what percentage of the total freight income is the income from wharfages?

Mr. D'Souza: We do not keep particulars separately.

Mr. Manu Subedar: What is your general impression from your examination of railway accounts? Do you regard wharage as an important item of income?

Mr. D'Souza: No, it is very negligible. It is not an appreciable item at all.

Mr. Hannay: As a matter of fact we sometimes write off a good deal of wharfage charges.

Chairman: Why do you write it off?

Mr. Hannay: When there is not much congestion, each case is dealt with on its merits, although as a rule such concessions are not made.

Mr. Manu Subedar: It will not be open for any one to argue that the Railway will try to improve their income from wharfage charges?

Mr. Hannay: That is the correct position.

Mr. Jadunath Roy: By the establishment of warehouses do you not think that the business of the railway will be increased? For example in the jute districts of Bengal and Assam there could be better and healthy competition with the steamer service.

Mr. Hannay: Yes, there is just a possibility of some increase in the traffic.

Mr. Khaitan: At the present moment from the jute districts much of the jute comes by steamer and if the steamer companies do not allow this warehousing facility, but the railways give it, do you not think that the traffic would be diverted from the steamer to the railways and thus the latter would get larger traffic than they now get?

Mr. Hannay: I personally think the steamer companies would give equal facilities.

Lala Harkishen Lal: I shall have to put one or two questions with a little introduction. It has been brought to our notice that the agriculturist does not find a market for his goods at the right time and at the right price and some means have to be adopted to help the agriculturist. He or his representative wants that there should be, in certain select places, accommodation for warehousing his goods which should be certified to be the right quality of produce. He would be able to raise money from banks on this certificate as the banks would be sure that the goods are in a third party's possession and that the third parties are respectable and responsible, also that the goods are of a certain description so that the value of the goods may be ascertained easily from the market. Difficulties have been raised that perhaps such respectable persons would not be available everywhere. It has also been pointed out that a certificate given by a company might not be acceptable in the market or by the banks. Incidentally it has been suggested that perhaps the railways who have eventually to handle these goods might be the best means of providing these two facilities, namely warehousing and grading, so that the certificate of the railway may be a good document in the hands of the agriculturist or storer of goods and he may be able to raise money on that. I have put the question in a way different from that in which the others asked it. The reference about Faridkote was made at my suggestion.

At Faridkote near the railway station I noticed from a long time a granary. I did not know whether that granary was working or not. The Government themselves had an elevator fixed at Lyallpur, it was tried for some time, but for certain reasons it has not come up to expectations so far as the agriculturist is concerned. I suggested that we should make enquiries into the Faridkote granary, for if it was by any chance a success, it would be a guidance for the Committee. Unfortunately it has not been worked. Would you kindly say whether the railway could give any assistance to the agriculturist in the way of storing his produce? It may be jute in Bengal and Bihar, cotton in other places, rice in Southern India, wheat, gram or barley in the Punjab and so on. Do you see your way to assist the agriculturist in this way?

Mr. D'Souza: It is a new problem.

Lala Harkishen Lal: I understood that one part of our enquiry with regard to warehousing related to agricultural produce and one advantage of it, as I have shown, is to enable the agriculturist to raise money. The other advantage would be both to the railway and to the agriculturist or the merchant. If he has his goods in his village, only the merchants that want the goods might go to the village, but if the goods are brought to a point, say at Lyallpur, which is not very far from his village, he can command at times the Karachi market or the markets on the road to Karachi; at other times, as it happens in the Punjab, wheat may be going to the United Provinces and Bengal in times of of scarcity; thirdly, it might be going to Rawalpindi and Peshawar, so that by bringing the wheat to a point like Lyallpur he has three routes open, but in his own village he has only one route open; also being in Lyallpur near the banks he might able to raise money from them or from the merchants on the certificate of the Railway warehousing department.

Mr. D'Souza: We have discussed warehousing so long. We have now come to grading.

Chairman: I mentioned grading also.

Mr. Hannay: Is it the idea that grading should also be part of the responsibility of the railways?

Chairman: It may become that later.

Lala Harkishen Lal: As an experiment it is part of that scheme. Later on, if the experiment succeeds, it might be done by separate companies or railways.

Chairman: We contemplate that in areas where the grading of the produce has to be done, trained and certified graders should be made available and these certified graders should be employed by warehouses. Have the railways anything to say in regard to this matter? I understood you to say that you would not object to it.

Mr. Hannay: I never realised that we should have to find the graders.

Chairman: That is not an insuperable difficulty. When you started railways a century ago, there was nobody who knew anything about platelaying, and the fact that the railways do not employ any graders cannot constitute an insuperable difficulty.

Mr. Hannay: That is true, but who would the graders be?

Lala Harkishen Lal: It is not only grading. Handling, supervision, weighing in and out, storage, taking care against weevils, against wastage,

what the warehousing man has got to do, etc. How far can you really assist the agriculturist who is really the mainstay of the railways and of the Government and of the population?

Mr. Hannay: At larger stations it would not be so difficult to get a man who would be qualified as a grader. But if this were to extend all over the country, *e.g.*, to roadside stations, I do not know how we can arrange for men to do the grading who would be trusted by the merchant.

Chairman: So far, Lalajee does not contemplate extension to roadside stations. It is an experiment to be tried at certain select places. We were told some days ago when we were discussing the jute problem, that in Eastern Bengal you could get graders without any difficulty Mr. Khaitan, who has personal experience, gave us the idea that it would not be difficult to get hold of graders in regard to jute.

Mr. Khaitan: Yes, and they get only Rs. 40 or 50 a month.

Mr. Hannay: Who would they grade for?

Mr. Khaitan: For the buyers.

Mr. D'Souza: Warehousing certificates will have to show the grading.

Mr. Khaitan: The railway company may employ its own graders; otherwise some other arrangement may have to be done for grading. There may be many classes of goods in which no grading would be required, *e.g.*, piece-goods from Bombay to Lyallpur or from Karachi to Lyallpore.

Mr. D'Souza: It is certainly required for agricultural products such as grain, cotton and jute.

Mr. Khaitan: The point is whether the railways could undertake it at certain select stations; otherwise, the warehousing can be done, so far as the railway is concerned, without grading, and if grading is required, other arrangements could be made in conjunction with railways. There are many alternatives.

Lala Harkishen Lal: I might explain that my question relates only to experimenting, not the undertaking of it on a huge scale at present. For example, a few places in the Punjab for wheat, gram, etc., two or three places in Berar in regard to cotton one or two places with regard to jute in Bengal and Bihar might be selected, and if the experiment succeeds, it may be worth while for the railways to extend it to other places or it may be worth while for Government to transfer it to some other people, or it may be worth while for the merchants to come in. That is another matter. Could this experiment be undertaken in right earnest by the railway and if so on what terms?

Mr. D'Souza: We have our experience of large *mandis* in the Punjab colonies which provide storage accommodation on an enormous scale for agricultural produce.

Chairman: At railway stations?

Mr. D'Souza: Yes, within a 100 yards of the railway stations themselves. The extent of accommodation provided is very extensive.

Lala Harkishen Lal: But there are difficulties in the present system. One is that it is only from one party that the agriculturist or the merchant can raise the money, and that is either from the bank or from a merchant. The loan that is given has to be liquidated with interest to

the party which first stores the goods. The goods do not change hands at present and if they are to be sent to other parts of the country it has to be done on the responsibility of the merchant himself at present. It is to avoid handling of that description which works against the monetary interests of the agriculturists and the idea that certain charges and certain malpractices in the way should be avoided that this scheme is propounded, and that is whether the system which prevails in Canada and other countries cannot be introduced here. That is the idea which has been running through our minds in this investigation.

Mr. D'Souza: Even in the experimental stage it means enormous accommodation and cost.

Lala Harkishen Lal: May I ask one question. How many cubic feet a maund of wheat really occupies? My own impression is that it will not occupy an enormous space, because after all what we have to consider is what accommodation is likely to be required for the first few years. We shall assume that space for about 2 lakhs maunds of wheat (maximum) will be required in the first few years to be stored at, say Lyallpur and the size of the warehouse that will be required will not be bigger than the Lyallpur elevator. It provides a larger accommodation than required for 2 lakhs maunds of wheat. If you work that out you will know what accommodation will be required. Incidentally I might suggest that you might try your experiments at Lyallpur and Faridkote because the required buildings are already there with the required accommodation and the elevator.

Mr. Hannay: We shall examine the possibility.

Lala Harkishen Lal: Outside the scope of the railway, so far as the Lyallpur elevator is concerned it has not succeeded so far, but things might improve when the railway handles the task.

Mr. Lamond: You said that in certain cases you remit the wharfage charges.

Mr. Hannay: Remission is not made as a general rule. Each case is disposed of on its own merits. If the merchant adduces good reasons why he was not able to take delivery of the goods in time, such applications are considered and only in exceptional circumstances are remissions made.

Mr. Lamond: It seems to me if there is no congestion you would encourage parties to keep their goods for periods longer than 48 hours to save their storage charges. It has been brought out from the reports of the Provincial Banking Committees where there is no congestion, still the railways used to insist on realising the penalties. Would it not be possible to waive the penalties under such circumstances?

Mr. Hannay: That is a possibility in certain seasons at certain places.

Mr. Rushforth: You made mention of the inadequacy of accommodation for the creation of the warehouses which I was not quite able to follow.

Mr. Hannay: What I meant was that the existing covered and locked accommodation even at present is sometimes found inadequate to cope with the traffic.

Mr. Rushforth: What extent does the annual capital outlay on the construction of godowns and warehouses form of your annual expenditure? My idea is: if it is a progressive expenditure would it not be possible to consider developments on the lines suggested now?

Mr. Hannay: We have not got the capital expenditure on goods sheds and goods godowns separately.

Mr. Rushforth: Is it a big item normally?

Mr. Hannay: It must be fairly so. At the present moment the whole expenditure is included under the station costs. We have been trying to find out what the terminal charges are on the Assam-Bengal Railway and we found it very difficult to separate that item of expenditure. It is difficult to separate the cost laid out on such goods-sheds and godowns.

Mr. Rushforth: But the increase which is necessary will be comparatively a small increase on the total amount already spent?

Mr. Hannay: I cannot say that.

Mr. Rushforth: And that is because a scheme of this nature has never been considered before, is it?

Mr. Hannay: That is so.

Lala Harkishen Lal: I think this question was considered by a Committee presided over by Mr. Paton, Director of Commercial Intelligence some years ago (possibly about 1909 and 1910). I appeared as a witness before that Committee and several questions were asked of me in regard to this matter. The Committee considered the question of the elevators, and I think a representative of the Railways was also on the Committee.

Mr. Rushforth: Mr. Hannay, you must understand that we are not asking anything very unreasonable of the railways.

Mr. Hannay: We will certainly consider the point.

Mr. Rushforth: Another difficulty to which you referred to was the question of obtaining proper graders. One of the Provincial Committees have made a set of recommendations with regard to the scheme of training and licensing graders by Government. If that is done then you can straightaway appoint qualified men for the posts of graders.

Mr. Hannay: That is of course a possibility but then there will be still some difficulty with regard to the smaller stations with limited staff.

Chairman: If it is a paying proposition you would not object to that.

Mr. Hannay: Certainly not.

Chairman: Would you kindly send us that estimate which you have promised to supply us within a week or so? We hope that this Committee will cease to function on the 30th of April 1931. Therefore we will be glad to have the information some time next week.

Mr. Hannay: It will require a good deal of investigation and it may not be possible to send in any estimate within that period. We will have to study the local conditions, make enquiries in the market and then study the cost of the acquisition of land and buildings and so on.

Lala Harkishen Lal: I do not think you need trouble yourself about land. You will have plenty of land round about your stations at least in the Punjab.

Chairman: Even for three stations and on the assumption that the accommodation will be required by the agriculturist continuously for the whole year, would it be impossible to furnish the information in a week?

Mr. Hannay: I should say so.

Chairman: In a fortnight?

Mr. D'Souza: It all depends on the stations we select. If we select a station in Berar, one on the Eastern Bengal Railway and one in the Punjab, we must write to the administrations of these three railways. We could do that to-day, and we have to tell them to consider the acquisition of land, also to assume that there would be so many thousand tons of produce on hand every day throughout the year. We must tell them also what the charges for working it should be.

Chairman: We want some sort of an intelligent estimate from you. we are not concerned so much with details. But if you want to give us the details, we have no objection. We should be glad to have the information in a week's time, or at the most in a fortnight's time. If you cannot do so, I might as well say that we would not be able to make use of the information.

Mr. Rushforth: What about making an estimate in Delhi on the spot. It would save correspondence. Would Delhi be a suitable centre?

Sir Purshotamdas Thakurdas: Delhi is not less costly.

Lala Harkishen Lal: They can select a place like Bhatinda. I have an elevator there in connection with the mill, the style and capacity can be very easily gauged. It is not built on the style of Lyallpur, but on the business style of a flour mill.

Chairman: You can try Bhatinda and if you write to Lahore to-day, you should be able to get an estimate in three or four days. It may be more difficult to get it from Eastern Bengal. You can drop Eastern Bengal and substitute for it, say, Chandausi or Hapur which are closer to Delhi.

Mr. Hannay: In any case we should have to make a reference to Calcutta.

Chairman: Will you please do your best and give us some information within the next ten days?

Mr. Hannay: Certainly.

Sir Purshotamdas Thakurdas: In view of the hesitation with which Mr. Hannay seems to look at the question, I wonder whether he could indicate to us the idea of the Railway Board regarding allowing private enterprise to put up these go-downs close to the railway stations and give them a lease of land. If private enterprise were to run the whole thing, what terms should we offer? I know many among the commercial community who would put up the money and build the godowns, and somebody would run them.

Lala Harkishen Lal: The question of gerading would be there.

Sir Purshotamdas Thakurdas: They will arrange the grading. Personally I do not think they need worry much about the grading. The important thing is to have the godowns in close proximity to the stations. The grading and all the paraphernalia will come later on. Could you let us have the Railway Board's views whether they would welcome this suggestion and what their ideas are? This question will be a live question only after our report is issued. Could you let us have a rough note on this?

Mr. Hannay: We can do that certainly.

Mr. Chairman: We are much obliged to you, Mr. Hannay and Mr. D'Souza.

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